

# Auditing Procedures Report

Instructions and MuniCodes

\*=Required Fields

Reset Form

Issued under Public Act 2 of 1968, as amended. (V1.07)

Unit Name* City of Manistee	County* MANISTEE	Type* CITY	MuniCode* 51-2-010
Opinion Date-Use Calendar* Nov 4, 2008	Audit Submitted-Use Calendar* Nov 7, 2008	Fiscal Year End Month*	Fiscal Year* 2008

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No."

<input checked="" type="checkbox"/> ?	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input checked="" type="checkbox"/> ?	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input type="checkbox"/> ?	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/> ?	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/> ?	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/> ?	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/> ?	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/> ?	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/> ?	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/>	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input checked="" type="checkbox"/> ?	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input type="checkbox"/> ?	12. Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/> ?	13. Is the audit opinion unqualified? 14. If not, what type of opinion is it? NA
<input checked="" type="checkbox"/>	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/> ?	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/> ?	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input checked="" type="checkbox"/> ?	18. Are there reported deficiencies? 19. If so, was it attached to the audit report?

General Fund Revenue: ?	\$ 5,102,494.00
General Fund Expenditure: ?	\$ 5,034,300.00
Major Fund Deficit Amount:	\$ 0.00

General Fund Balance: ?	\$ 724,428.00
Governmental Activities Long-Term Debt (see instructions): ?	\$ 5,709,081.00

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (reported deviations).

CPA (First Name)* Stephen	Last Name* Peacock	Ten Digit License Number* 1101021255		
CPA Street Address* 107 South Cass, Suite A	City* Traverse City	State* MI	Zip Code* 49684	Telephone* +1 (231) 946-3230
CPA Firm Name* Rehmann Robson	Unit's Street Address* 70 Maple Street	Unit's City* Manistee	Unit's Zip* 49660	



**Manistee, Michigan**

**FINANCIAL STATEMENTS**

**For the Fiscal Year Ended  
June 30, 2008**



**REHMANN ROBSON**

*Certified Public Accountants*

# CITY OF MANISTEE, MICHIGAN

## TABLE OF CONTENTS

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	<b><u>PAGE</u></b>
<b><i>FINANCIAL SECTION</i></b>	
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-11
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets	12
Statement of Activities	13-14
Fund Financial Statements	
Balance Sheet – Governmental Funds	15-16
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	17-18
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual	
General Fund	19
Oil & Gas Fund	20
Statement of Net Assets – Proprietary Funds	21-22
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds	23-24
Statement of Cash Flows – Proprietary Funds	25-26
Statement of Net Assets – Fiduciary Funds	27
Notes to the Financial Statements	28-46
<b><i>SUPPLEMENTARY INFORMATION</i></b>	
Schedule of Revenues – Budget to Actual – General Fund	47
Schedule of Expenditures – Budget to Actual – General Fund	48-53
Combining and Individual Fund Statements and Schedules	
Combining Balance Sheet – Nonmajor Governmental Funds	54
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	55
Combining Balance Sheet – Nonmajor Special Revenue Funds	56-57
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Special Revenue Funds	58-59
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Budget to Actual – Nonmajor Special Revenue Funds	
Building Inspector	60
Major Street	61
Local Street	62
Street Improvement	63
City Refuse	64
EPA Brownfield Pilot Grant	65
EPA Brownfield Assessment Phase 2	66
Criminal Justice	67
Local Revenue Sharing	68
Maple Street Bridge	69
Riverwalk Maintenance	70

# CITY OF MANISTEE, MICHIGAN

## TABLE OF CONTENTS

---

	<b><u>PAGE</u></b>
Special Assessment	71
Ramsdell Theatre	72
Man Made Lake	73
EPA Grant – Petroleum	74
EPA Grant – Hazardous	75
PEG Commission	76
Combining Balance Sheet - Nonmajor Capital Project Funds	77
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Capital Project Funds	78
Combining Statement of Net Assets - Nonmajor Enterprise Funds	79
Combining Statement of Revenues, Expenses and Changes in Net Assets - Nonmajor Enterprise Funds	80
Combining Statement of Cash Flows - Nonmajor Enterprise Funds	81
Combining Balance Sheet - Agency Funds	82
Statement of Net Assets - Component Unit - Ramsdell Theatre	83
Statement of Activities - Component Unit - Ramsdell Theatre	84
 <b><i>INTERNAL CONTROL AND COMPLIANCE</i></b>	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and on Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	85-86
Schedule of Financial Statement Findings	87-88



# REHMANN ROBSON

*Certified Public Accountants*

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## **INDEPENDENT AUDITORS' REPORT**

November 4, 2008

The Honorable Mayor and  
Members of the City Council  
City of Manistee  
Manistee, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely-presented component units, each major fund, and the aggregate remaining fund information of the **City of Manistee, Michigan** (the "City"), as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the discretely presented component unit financial statements of the City of Manistee Housing Commission and Downtown Development Authority, which represents 87% and 11% of the assets and 86% and 11% of the revenues, respectively, of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar, as they relate to the amounts included for the City of Manistee's Housing Commission and Downtown Development Authority, are based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Downtown Development Authority were not audited in accordance with auditing standards applicable to financial audits contained in *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparison for the General and Oil & Gas Special Revenue Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2008, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis listed on pages 3-11 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

## Management's Discussion and Analysis

The management of the *City of Manistee, Michigan* (the "City"), presents readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2008. This analysis is intended to assist the reader in focusing on significant financial issues and to provide a general overview of the City's financial activity.

### **Financial Highlights**

- The assets of the City (primary government) exceeded its liabilities at the close of the most recent fiscal year by \$ 27,527,682 (net assets). Of this amount, \$5,043,812 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets decreased by \$134,573 or 0.5%.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$9,586,173, a decrease of \$(191,404) or 1.9 % from the prior year.
- At the end of the current fiscal year, the total General Fund balance was \$724,428; and unreserved, undesignated fund balance was \$679,809 or 13% percent of total General Fund expenditures and transfers out.
- The City's total governmental activities long-term debt was \$5,709,081, a decrease of \$(370,021) or 6.1%. This decrease was due to the issuance of notes payable in the amount of \$154,703 less scheduled principal payments of \$549,611.

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

### **Government-Wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Overtime, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (for example, earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include legislative, general government, public safety, public works, and recreation and culture. The business-type activities of the City include water and sewer, marina and boat ramp operations.

The government-wide financial statements include not only the City (known as the primary government), but also legally separate entities - the Downtown Development Authority, Manistee Housing Commission, and the Ramsdell Theatre Restoration Project; which are *discretely presented component units* of the City. Financial information for these *component units* are reported separately from the financial information presented for the primary government.

The government-wide financial statements can be found on pages 12-14 of this report.

**Fund Financial Statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

*Governmental Funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds and governmental activities*.

The City maintains twenty-one individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General and Oil & Gas Funds, both of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 15-20 of this report.



*Proprietary Funds* are also maintained by the City. There are two different types of proprietary funds. *Enterprise Funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer, marina and boat ramp operations. *Internal Service Funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its motor pool. Because these services benefit general, major and local streets, and water and sewer fund functions, the services have been allocated between the governmental and business-type activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The City maintains four individual proprietary funds. Information is presented separately in the proprietary fund balance sheet and in the proprietary fund statement of revenues, expenses and changes in net assets for the Water and Sewer Fund, which is considered to be a major fund of the City. Data from the other proprietary funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major proprietary funds is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 22-26 of this report and in the business-type activities in the government-wide financial statements.

*Fiduciary Funds:* Fiduciary Funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statement can be found on page 27 of this report.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. They should be read thoroughly as part of any review of the City's financial statements. The notes to the financial statements can be found on pages 28-46 of this report.

**Other Information.** The combining statements referred to earlier in connection with non-major governmental funds and component units are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 47-86 of this report.

## **Government-Wide Financial Analysis**

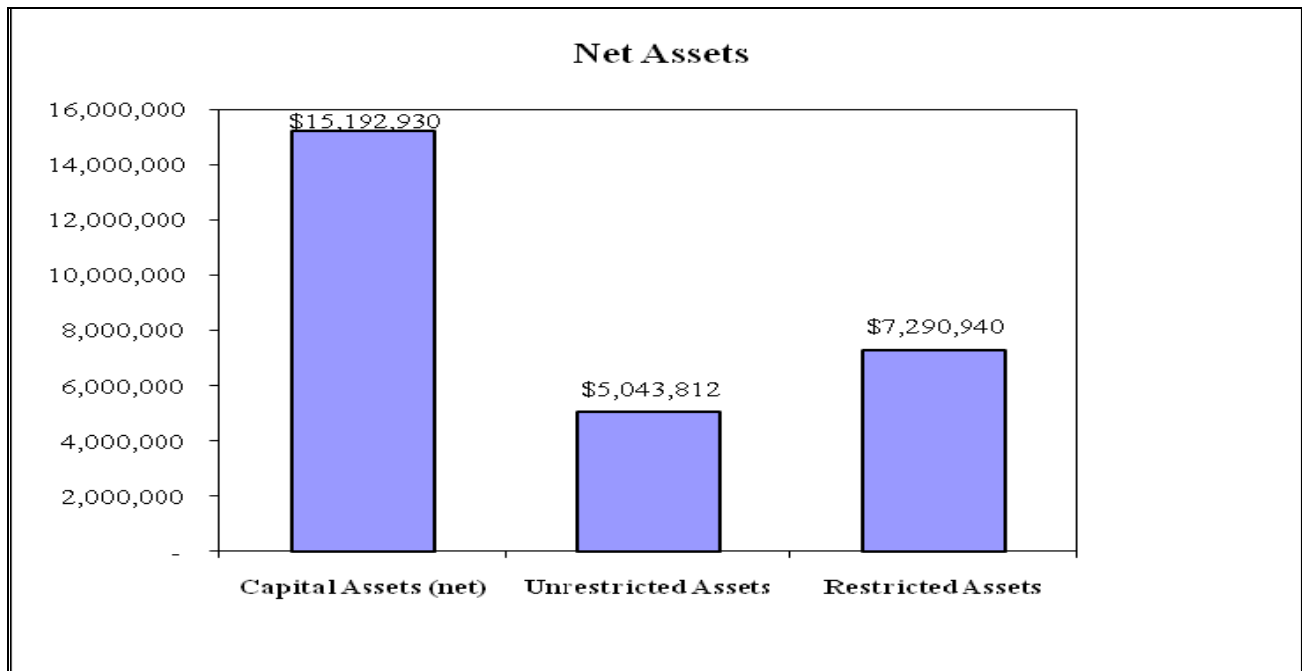
As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$27,527,682 at the close of the most recent fiscal year.

The largest portion of the City's net assets, \$15,192,930 (55%) reflects its investment in capital assets (e.g., land, buildings, vehicles, equipment and infrastructure); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**City of Manistee**  
**Net Assets as of June 30, 2008**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Current and other assets	\$10,653,764	\$10,564,587	\$3,084,599	\$ 3,414,509	\$13,738,363	\$13,979,096
Capital assets	<u>15,315,898</u>	<u>15,355,007</u>	<u>18,117,228</u>	<u>18,505,453</u>	<u>33,433,126</u>	<u>33,860,460</u>
Total assets	<u>25,969,662</u>	<u>25,919,594</u>	<u>21,201,827</u>	<u>21,919,962</u>	<u>47,171,489</u>	<u>47,839,556</u>
Long-term liabilities						
outstanding	5,709,081	6,079,102	12,876,805	13,409,206	18,585,886	19,488,308
Other liabilities	<u>780,485</u>	<u>503,725</u>	<u>277,436</u>	<u>185,268</u>	<u>1,057,921</u>	<u>689,993</u>
Total liabilities	<u>6,489,566</u>	<u>6,582,827</u>	<u>13,154,241</u>	<u>13,594,474</u>	<u>19,643,807</u>	<u>20,177,301</u>
Net assets						
Invested in capital						
assets, net of related						
debt	9,890,702	9,534,903	5,302,228	5,155,487	15,192,930	14,690,390
Restricted	6,731,352	6,612,717	559,588	995,539	7,290,940	7,608,256
Unrestricted	<u>2,858,042</u>	<u>3,189,147</u>	<u>2,185,770</u>	<u>2,174,462</u>	<u>5,043,812</u>	<u>5,363,609</u>
<b>Total net assets</b>	<b><u>\$19,480,096</u></b>	<b><u>\$19,336,767</u></b>	<b><u>\$8,047,586</u></b>	<b><u>\$ 8,325,488</u></b>	<b><u>\$27,527,682</u></b>	<b><u>\$27,662,255</u></b>

A portion of the City's net assets, \$7,290,940 (26%) represents resources that are subject to external restrictions on how they may be used both for the City as a whole, as well as for its separate governmental and business-type activities. The balance in *restricted net assets* reflects the charter-protected Oil & Gas Fund and the City's Bond Debt reserve. The remaining balance of *unrestricted net assets* of \$5,043,812 (18%) may be used to meet the City's ongoing obligations to citizens and creditors.



## Financial Analysis of the City's Funds

The following table illustrates and summarizes the changes in Net Assets for the City and was derived from the Government-Wide Statement of Activities:

### City of Manistee's Change in Net Assets For the Fiscal Year Ended June 30, 2008

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
<b>Program Revenue</b>						
Charges for services	\$ 1,381,681	\$ 1,248,688	\$2,889,816	\$ 2,848,689	\$ 4,271,497	\$ 4,097,377
Operating grants and contributions	1,159,737	1,210,088	51,851	34,500	1,211,588	1,244,588
Capital grants and contributions	-	263,683	-	-	-	263,683
<b>General Revenue</b>						
Property taxes	3,588,776	3,467,500	-	-	3,588,776	3,467,500
Grants and contributions not restricted to specific programs	736,874	745,911	-	-	736,874	745,911
Contributions to permanent endowment	111,461	110,720	-	-	111,461	110,720
Other	<u>532,817</u>	<u>547,441</u>	<u>277,713</u>	<u>201,025</u>	<u>810,530</u>	<u>748,466</u>
<b>Total Revenues</b>	<b><u>7,511,346</u></b>	<b><u>8,556,569</u></b>	<b><u>3,219,380</u></b>	<b><u>3,084,214</u></b>	<b><u>10,730,726</u></b>	<b><u>11,640,783</u></b>
<b>Expenses</b>						
Legislative	41,139	39,101	-	-	41,139	39,101
General government	2,069,678	2,173,910	-	-	2,069,678	2,173,910
Highway & streets	753,372	455,853	-	-	753,372	455,853
Public safety	1,890,233	1,777,525	-	-	1,890,233	1,777,525
Public works	1,674,267	1,526,388	-	-	1,674,267	1,526,388
Community development	46,381	132,405	-	-	46,381	132,405
Recreation and culture	492,354	449,189	-	-	492,354	449,189
Interest on long-term debt	243,524	271,449	-	-	243,524	271,449
Water & sewer utility	-	-	3,383,489	3,095,803	3,383,489	3,095,803
Marina & boat ramp	<u>-</u>	<u>-</u>	<u>270,862</u>	<u>218,220</u>	<u>270,862</u>	<u>218,220</u>
<b>Total Expenses</b>	<b><u>7,210,948</u></b>	<b><u>6,825,820</u></b>	<b><u>3,654,351</u></b>	<b><u>3,314,023</u></b>	<b><u>10,865,299</u></b>	<b><u>10,139,843</u></b>
Increase (decrease) in net assets before transfers	300,398	1,730,749	(434,971)	(229,809)	(134,573)	1,500,940
Transfers	<u>(157,069)</u>	<u>(199,484)</u>	<u>157,069</u>	<u>199,484</u>	<u>-</u>	<u>-</u>
<b>Increase (decrease) in net assets</b>	<b>143,329</b>	<b>1,531,265</b>	<b>(277,902)</b>	<b>(30,325)</b>	<b>(134,573)</b>	<b>1,500,940</b>
Net assets – beginning of year	<u>19,336,767</u>	<u>17,805,502</u>	<u>8,325,488</u>	<u>8,355,813</u>	<u>27,662,255</u>	<u>26,161,315</u>
<b>Net assets – end of year</b>	<b><u>\$19,480,096</u></b>	<b><u>\$19,336,767</u></b>	<b><u>\$8,047,586</u></b>	<b><u>\$ 8,325,488</u></b>	<b><u>\$27,527,682</u></b>	<b><u>\$ 27,662,255</u></b>

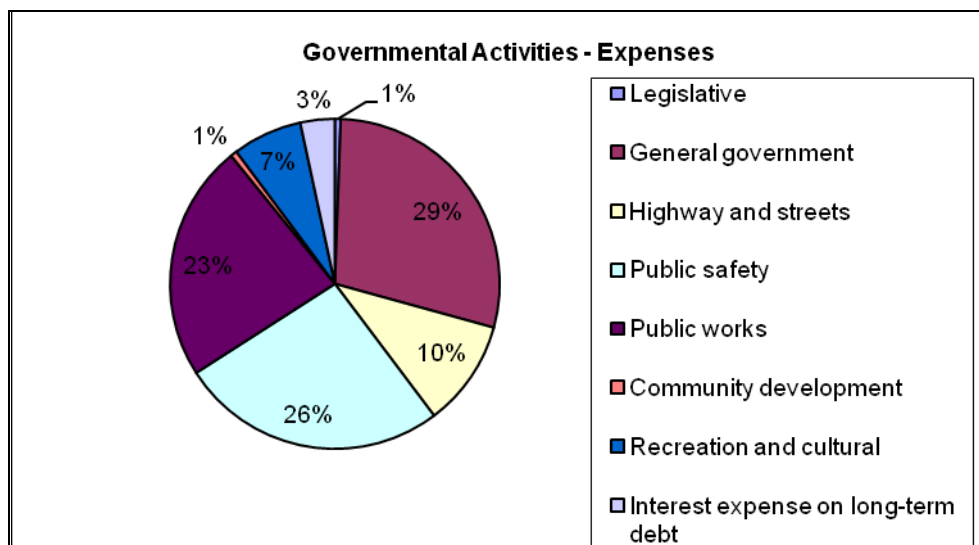
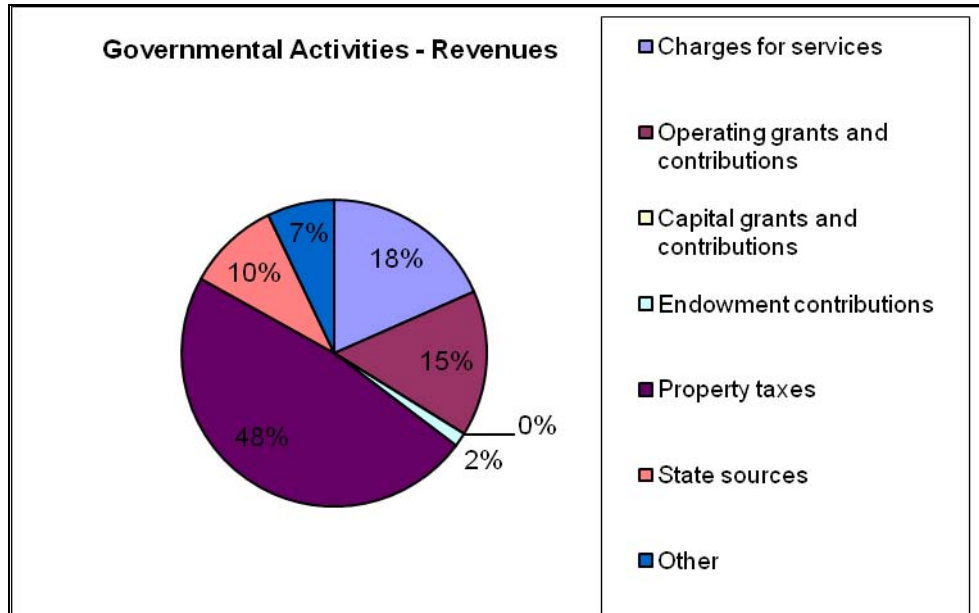
**Governmental Activities:** Governmental activities increased the City's net assets by \$143,329, or .7%. Key elements of this performance are as follows:

- Normal business fluctuations
- Increased oil royalties

**Business-Type Activities:** Business-type activities decreased the City's net assets by \$(277,902) or 3%. Key elements of this performance are as follows:

- Lower water & sewer revenue than anticipated
- Typical fluctuations in business activity, including depreciation

The following charts depict the breakdown of Government Activity revenues and expenses.



## **Financial Analysis of the Government's Funds**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

*Governmental Funds.* The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a City's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$9,586,173, a decrease of \$(191,404) or 2% in comparison with the prior year. The decrease was due to a variety of normal operating activities and budget to actual fluctuations.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the total fund balance of the General Fund was \$724,428, and it had a balance of \$679,809 that was unreserved and undesignated. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures, including transfers out. Unreserved fund balance represents 13% percent of total General Fund expenditures including transfers out. Exclusive of elective transfers to the capital improvement fund, this represents 13% of general fund expenditures.

The General Fund balance decreased by \$(137,194) during the current fiscal year. This was the result of several items. Significant items contributing to this loss were higher fuel costs, increased fuel usage due to severe winter weather, overtime related to winter snowplowing and the June major storm event and general price inflation.

The Oil & Gas Fund has a total fund balance of \$6,724,180, which increased by \$111,462 during the year. This increase is due entirely to oil & gas royalties received. Higher crude oil prices during the year, coupled with increased production, allowed revenue to increase. The City Charter prevents the principal of this fund to be spent without a vote of the people.

*Proprietary Funds.* The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net assets of Water and Sewer, Municipal Marina and the Boat Ramps Funds at the end of the year amounted to \$2,168,001, restricted assets of \$559,588 and capital assets net of related debt of \$5,302,228. The Water and Sewer Fund had a decrease in net assets for the year of \$(287,193), the Municipal Marina and Boat Ramp had an increase of \$15,390. The Water and Sewer Fund did not generate sufficient revenue to fully fund depreciation, thus leading to the decrease in net assets. Cash flow was negative because of the purchase of capital assets and reduced water and sewer sales. In addition, the fund is in the middle of a process of weaning itself from a subsidy from the oil and gas fund.

## **General Fund Budgetary Highlights**

During the year, General Fund revenues were over amended budgetary estimates by \$ 62,751 while other financing sources, namely net transfers, were under by \$ 15,000 for a total revenue variance of \$ 47,751. Actual expenditures were also over amended budgetary estimates by \$ 2,742. As a result, the fund balance decreased by \$(137,194) which was less than the budgeted estimate of \$(182,203).

## Capital Asset and Debt Administration

**Capital Assets.** The City's investment in capital assets for its governmental and business type activities as of June 30, 2008, amounted to \$33,433,126 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements, machinery and equipment, park facilities, roads, highways, bridges and construction in progress. The total net decrease in the City's investment in capital assets for the current fiscal year was \$(427,334). Major capital asset events during the current fiscal year included the following:

- Truck Route Rehabilitation
- Fifth Street Rehabilitation
- Jerumbo St. Lift Station and Force Main
- 6<sup>th</sup> Avenue Lift Station & Road
- Ramsdell Theatre Bathrooms

### *City of Manistee's Capital Assets (net of depreciation)*

	<b><u>Governmental Activities</u></b>	<b><u>Business-type Activities</u></b>	<b><u>Total</u></b>
Land	\$ 1,494,429	\$ 51,974	\$ 1,546,403
Land improvements	3,990,484	70,337	4,060,821
Buildings and structures	4,308,614	128,796	4,437,410
Furniture and equipment	534,158	201,628	735,786
Vehicles	1,148,037	-	1,148,037
Infrastructure	<u>3,840,176</u>	<u>17,664,493</u>	<u>21,504,669</u>
<b>Total</b>	<b><u>\$ 15,315,898</u></b>	<b><u>\$ 18,117,228</u></b>	<b><u>\$ 33,433,126</u></b>

Additional information on the City's capital assets can be found in Note III.C on pages 37-39 of this report.

**Long-Term Debt.** At the end of the current fiscal year, the City had total bonded debt and lease payables of \$18,240,196. Of this amount, \$8,300,000 comprises debt backed by the full faith and credit of the government. The remainder of the City's debt represents capital leases, loans and bonds secured solely by specified revenue sources (i.e., revenue bonds).

**City of Manistee's Outstanding Debt**  
General Obligation and Revenue Bonds

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
General obligation bonds	\$ 4,810,000	\$ 3,490,000	\$ 8,300,000
Leases payable	537,041	-	537,041
MEDC Loan	78,155	-	78,155
SRF bonds	-	2,670,000	2,670,000
Revenue bonds	<u>-</u>	<u>6,655,000</u>	<u>6,655,000</u>
<b>Total</b>	<b><u>\$ 5,425,196</u></b>	<b><u>\$ 12,815,000</u></b>	<b><u>\$ 18,240,196</u></b>

The City's total debt (excluding compensated absences) decreased by \$(929,874)

The City has a "AA" rating from Standard & Poor's for its Michigan Transportation Fund Bonds, and a low investment grade rating indicator on its Water & Sewer debt.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10% percent of its total assessed valuation. The current debt limitation for the City is \$19,925,800, which is significantly in excess of the City's outstanding general obligation debt.

Additional information on the City's long-term debt can be found in Note III.E on pages 42-44 of this report.

### **Economic Factors and Next Year's Budgets and Rates**

The following significant factors were considered in preparing the City's budget for the 2008-09 fiscal year:

- Full-time employment up 1 to 62.5.
- Reduced rate of increase in health care costs due to reform measures implemented.
- No reduction in State Revenue Sharing funds.
- Slower taxable value growth
- Higher fuel prices

### **Requests for Information**

This discussion and analysis is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Finance Director, PO Box 358, Manistee, Michigan 49660 or via email at [ebradford@ci.manistee.mi.us](mailto:ebradford@ci.manistee.mi.us) or by visiting our website.

**CITY OF MANISTEE**

**STATEMENT OF NET ASSETS**

**JUNE 30, 2008**

	<b>PRIMARY GOVERNMENT</b>		
	<b>GOVERNMENTAL ACTIVITIES</b>	<b>BUSINESS TYPE ACTIVITIES</b>	<b>TOTAL</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 3,263,068	\$ 519,940	\$ 3,783,008
Investments	6,824,511	1,000,787	7,825,298
Receivables	343,191	493,870	837,061
Due from other governments	268,400	-	268,400
Internal balances	(168,135)	168,135	-
Prepaid items	44,662	10,654	55,316
Inventory	-	7,608	7,608
Restricted cash	-	559,588	559,588
Deferred charges	78,067	324,017	402,084
Land	1,494,429	51,974	1,546,403
Construction in progress	-	-	-
Capital assets, net	13,821,469	18,065,254	31,886,723
<b>TOTAL ASSETS</b>	<b>25,969,662</b>	<b>21,201,827</b>	<b>47,171,489</b>
<b>LIABILITIES</b>			
Accounts payable	524,155	179,677	703,832
Accrued liabilities	68,267	14,571	82,838
Accrued interest payable	80,926	55,678	136,604
Customer deposits	107,137	27,500	134,637
Unearned revenues	-	-	-
Long-term liabilities			
Due within one year	485,426	773,578	1,259,004
Due in more than one year	5,223,655	12,103,237	17,326,892
<b>TOTAL LIABILITIES</b>	<b>6,489,566</b>	<b>13,154,241</b>	<b>19,643,807</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	9,890,702	5,302,228	15,192,930
Restricted for			
Debt service	7,172	559,588	566,760
Expendable portion of Oil & Gas Fund	111,462	-	111,462
Nonexpendable portion of Oil & Gas Fund	6,612,718	-	6,612,718
Unrestricted (deficit)	2,858,042	2,185,770	5,043,812
<b>TOTAL NET ASSETS</b>	<b>\$ 19,480,096</b>	<b>\$ 8,047,586</b>	<b>\$ 27,527,682</b>

The accompanying notes are an integral part of these financial statements.



COMPONENT UNITS		
RAMSDELL THEATRE RESTORATION PROJECT	HOUSING COMMISSION (12/31/07)	DOWNTOWN DEVELOPMENT AUTHORITY
\$ 3,643	\$ 296,134	\$ 431,324
-	-	-
3,996	46,330	37,104
-	18,398	-
-	-	-
-	-	-
-	-	-
-	65,626	-
-	41,001	-
-	322,216	-
-	121,789	-
100,499	2,908,928	-
108,138	3,820,422	468,428
15,000	51,338	2,776
-	23,517	-
-	-	-
-	49,205	-
-	2,838	-
-	8,150	-
-	347,586	-
15,000	482,634	2,776
100,499	3,026,933	-
-	-	-
-	-	-
-	-	-
(7,361)	310,855	465,652
\$ 93,138	\$ 3,337,788	\$ 465,652

**CITY OF MANISTEE**

**STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED JUNE 30, 2008**

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	
<b>PRIMARY GOVERNMENT</b>					
Governmental activities					
Legislative	\$ 41,139	\$ -	\$ -	\$ -	\$ (41,139)
General government	2,069,678	1,027,846	223,217	-	(818,615)
Highway and streets	753,372	170,673	531,872	-	(50,827)
Police	1,141,863	-	-	-	(1,141,863)
Fire	712,381	-	-	-	(712,381)
Public safety	35,989	24,253	-	-	(11,736)
Public works	1,674,267	125,984	344,613	-	(1,203,670)
Community development	46,381	32,925	45,939	-	32,483
Recreation and cultural	492,354	-	14,096	-	(478,258)
Interest expense on long-term debt	243,524	-	-	-	(243,524)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>7,210,948</b>	<b>1,381,681</b>	<b>1,159,737</b>	<b>-</b>	<b>(4,669,530)</b>
Business-type activities					
Water and sewer	3,383,489	2,661,814	-	-	(721,675)
Boat ramp	45,911	31,675	36,810	-	22,574
Marina	224,951	196,327	15,041	-	(13,583)
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b>3,654,351</b>	<b>2,889,816</b>	<b>51,851</b>	<b>-</b>	<b>(712,684)</b>
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 10,865,299</b>	<b>\$ 4,271,497</b>	<b>\$ 1,211,588</b>	<b>\$ -</b>	<b>\$ (5,382,214)</b>
<b>COMPONENT UNITS</b>					
Ramsdell theatre restoration project	14,399	-	73,827	-	59,428
Housing commission (12/31/07)	1,495,761	511,006	540,566	117,309	(326,880)
Downtown development authority	306,984	7,900	22,500	-	(276,584)
<b>TOTAL COMPONENT UNITS</b>	<b>\$ 1,817,144</b>	<b>\$ 518,906</b>	<b>\$ 636,893</b>	<b>\$ 117,309</b>	<b>\$ (544,036)</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF MANISTEE**

**STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED JUNE 30, 2008**

<b>FUNCTIONS/PROGRAMS</b>	<b>PRIMARY GOVERNMENT</b>		
	<b>GOVERNMENTAL ACTIVITIES</b>	<b>BUSINESS TYPE ACTIVITIES</b>	<b>TOTAL</b>
<b>CHANGE IN NET ASSETS</b>			
Net (expense) revenue	\$ (4,669,530)	\$ (712,684)	\$ (5,382,214)
General revenues			
Property taxes	3,588,776	-	3,588,776
Grants and contributions not restricted to specific programs	736,874	-	736,874
Unrestricted investment earnings	484,743	138,038	622,781
Other revenues	36,110	139,675	175,785
Gain on sale of capital assets	11,964	-	11,964
Contribution to permanent endowment	111,461	-	111,461
Internal transfers	(157,069)	157,069	-
<b>TOTAL GENERAL REVENUES, CONTRIBUTIONS AND TRANSFERS</b>	<b>4,812,859</b>	<b>434,782</b>	<b>5,247,641</b>
<b>CHANGE IN NET ASSETS</b>	<b>143,329</b>	<b>(277,902)</b>	<b>(134,573)</b>
NET ASSETS, BEGINNING OF YEAR	19,336,767	8,325,488	27,662,255
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 19,480,096</b>	<b>\$ 8,047,586</b>	<b>\$ 27,527,682</b>

Continued...

The accompanying notes are an integral part of these financial statements.

COMPONENT UNITS		
<b>RAMSDELL THEATRE RESTORATION PROJECT</b>	<b>HOUSING COMMISSION (12/31/07)</b>	<b>DOWNTOWN DEVELOPMENT AUTHORITY</b>
\$ 59,428	\$ (326,880)	\$ (276,584)
-	-	289,057
-	-	-
2,260	23,185	19,673
-	60,408	1,600
-	-	-
-	-	-
-	-	-
<b>2,260</b>	<b>83,593</b>	<b>310,330</b>
<b>61,688</b>	<b>(243,287)</b>	<b>33,746</b>
31,450	3,581,075	431,906
<b>\$ 93,138</b>	<b>\$ 3,337,788</b>	<b>\$ 465,652</b>

Concluded

# CITY OF MANISTEE

## BALANCE SHEET GOVERNMENTAL FUNDS

JUNE 30, 2008

	General Fund	Oil & Gas Fund	Nonmajor Governmental Funds	Total
<b>ASSETS</b>				
Cash and cash equivalents	\$ 541,049	\$ 901,651	\$ 1,522,220	\$ 2,964,920
Investments	368,069	6,150,600	305,842	6,824,511
Receivables				
Accounts	283,502	-	32,472	315,974
Taxes	3,712	-	19,507	23,219
Interest	-	3,998	-	3,998
Due from other governments	150,173	-	118,227	268,400
Due from other funds	78,572	-	690,174	768,746
Prepaid items	44,619	-	43	44,662
<b>TOTAL ASSETS</b>	<b><u>\$ 1,469,696</u></b>	<b><u>\$ 7,056,249</u></b>	<b><u>\$ 2,688,485</u></b>	<b><u>\$ 11,214,430</u></b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts payable	\$ 61,239	\$ -	\$ 462,916	\$ 524,155
Accrued liabilities	67,328	-	939	68,267
Deposits held	101,867	-	5,270	107,137
Due to other funds	514,834	332,069	72,209	919,112
Deferred revenue	-	-	9,586	9,586
<b>Total liabilities</b>	<b><u>745,268</u></b>	<b><u>332,069</u></b>	<b><u>550,920</u></b>	<b><u>1,628,257</u></b>
<b>Fund balances</b>				
Reserved				
Prepaid items	44,619	-	43	44,662
Public improvement	-	6,612,718	-	6,612,718
Debt retirement	-	-	7,172	7,172
Capital projects	-	-	403,511	403,511
Unreserved				
Unreserved	679,809	111,462	-	791,271
Unreserved, reported in nonmajor Special revenue funds	-	-	1,726,839	1,726,839
<b>Total fund balances</b>	<b><u>724,428</u></b>	<b><u>6,724,180</u></b>	<b><u>2,137,565</u></b>	<b><u>9,586,173</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$ 1,469,696</u></b>	<b><u>\$ 7,056,249</u></b>	<b><u>\$ 2,688,485</u></b>	<b><u>\$ 11,214,430</u></b>

Continued...

The accompanying notes are an integral part of these financial statements.

**CITY OF MANISTEE**

**BALANCE SHEET  
GOVERNMENTAL FUNDS**

**JUNE 30, 2008**

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**Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds  
to Net Assets of Governmental Activities on the Statement of Net Assets**

Fund balances - total governmental funds	\$ 9,586,173
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Amounts reported for governmental activities in the statement of net assets are different because:

Certain assets used in governmental activities, such as capital assets, are not financial resources, and therefore not reported in the funds.

Add: capital assets	18,099,225
Subtract: accumulated depreciation	(4,275,018)
Add: deferred charges	100,733
Subtract: accumulated amortization	(22,666)

Other long-term assets are not available to pay for current period expenditures, and therefore, are deferred in the funds.	9,586
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An internal service fund is used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

Add: net assets of governmental activities accounted for in the internal service fund	1,232,485
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Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore, are not reported in the funds.

Subtract: bonds payable	(4,810,000)
Subtract: notes payable	(14,319)
Subtract: accrued interest on long-term liabilities	(64,063)
Subtract: Michigan Economic Development Corporation Loan	(78,155)
Subtract: accrued compensated absences	(283,885)

<b>Net assets of governmental activities</b>	<b>\$ 19,480,096</b>
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Concluded

The accompanying notes are an integral part of these financial statements.

**CITY OF MANISTEE**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**

**FOR THE YEAR ENDED JUNE 30, 2008**

	General Fund	Oil & Gas Fund	Nonmajor Governmental Funds	Total
<b>REVENUES</b>				
Taxes	\$ 3,303,279	\$ -	\$ 285,497	\$ 3,588,776
Federal sources	13,418	-	344,613	358,031
State sources	736,874	-	534,905	1,271,779
Charges for services	791,973	-	434,981	1,226,954
Licenses and permits	950	-	-	950
Fines and forfeits	58,107	-	-	58,107
Interest revenue	75,954	332,277	66,083	474,314
Other revenue	-	-	293	293
Contributions/donations	-	-	14,096	14,096
Reimbursement	-	-	143,998	143,998
Miscellaneous	121,939	111,461	101,262	334,662
<b>TOTAL REVENUES</b>	<b>5,102,494</b>	<b>443,738</b>	<b>1,925,728</b>	<b>7,471,960</b>
<b>EXPENDITURES</b>				
Current operations				
Legislative	41,139	-	-	41,139
General government	1,506,406	207	249,803	1,756,416
Public safety	1,799,707	-	28,139	1,827,846
Highways and streets	-	-	910,296	910,296
Public works	1,141,219	-	522,409	1,663,628
Recreation and cultural	403,553	-	-	403,553
Appropriations	142,276	-	-	142,276
Debt service				
Principal	-	-	245,000	245,000
Interest expense	-	-	220,284	220,284
Capital outlay	-	-	295,857	295,857
<b>TOTAL EXPENDITURES</b>	<b>5,034,300</b>	<b>207</b>	<b>2,471,788</b>	<b>7,506,295</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>68,194</b>	<b>443,531</b>	<b>(546,060)</b>	<b>(34,335)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	83,000	-	616,990	699,990
Transfers out	(288,388)	(332,069)	(236,602)	(857,059)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(205,388)</b>	<b>(332,069)</b>	<b>380,388</b>	<b>(157,069)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(137,194)</b>	<b>111,462</b>	<b>(165,672)</b>	<b>(191,404)</b>
FUND BALANCES, BEGINNING OF YEAR	861,622	6,612,718	2,303,237	9,777,577
<b>FUND BALANCES, END OF YEAR</b>	<b>\$ 724,428</b>	<b>\$ 6,724,180</b>	<b>\$ 2,137,565</b>	<b>\$ 9,586,173</b>

Continued...

The accompanying notes are an integral part of these financial statements.

**CITY OF MANISTEE**

**STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS**

**FOR THE YEAR ENDED JUNE 30, 2008**

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**Reconciliation of the Statement of Revenues, Expenditures and Change in Fund  
Balances of Governmental Funds to the Statement of Activities**

Net change in fund balances - total governmental funds	\$ (191,404)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report long-term receivables as deferred revenue. However, in the statement of activities, those receivables are recognized as revenue when they are initially recorded.

Subtract: decrease in deferred receivables	(20,299)
--	----------

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	559,669
Subtract: depreciation expense	(465,104)

Governmental funds report bond issuance costs as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as amortization expense.

Subtract: amortization expense	(5,037)
--------------------------------	---------

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: principal payments on long-term liabilities	270,689
--	---------

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Add: Decrease in accrued interest on long-term liabilities	55
Subtract: increase in the accrual of compensated absences	(24,887)

An internal service fund is used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities.

Add: interest revenue from governmental internal service fund	10,429
Add: other revenue from governmental internal service fund	45,726
Subtract: interest expense from governmental internal service fund	(23,295)
Subtract: net operating loss of certain activities of the internal service fund reported with governmental activities	(13,213)

<b>Change in net assets of governmental activities</b>	<b>\$ 143,329</b>
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Concluded

The accompanying notes are an integral part of these financial statements.



**CITY OF MANISTEE**

**STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL  
GENERAL FUND**

**FOR THE YEAR ENDED JUNE 30, 2008**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Over (Under) Budget</b>
<b>REVENUES</b>				
Taxes	\$ 3,309,277	\$ 3,309,277	\$ 3,303,279	\$ (5,998)
Federal sources	(20,000)	20,000	13,418	(6,582)
State sources	749,466	749,466	736,874	(12,592)
Charges for services	807,630	807,630	791,973	(15,657)
Licenses and permits	1,000	1,000	950	(50)
Fines and forfeits	56,500	56,500	58,107	1,607
Interest revenue	60,000	60,000	75,954	15,954
Miscellaneous	35,870	35,870	121,939	86,069
<b>TOTAL REVENUES</b>	<b>4,999,743</b>	<b>5,039,743</b>	<b>5,102,494</b>	<b>62,751</b>
<b>EXPENDITURES</b>				
Current operations				
Legislative	43,050	43,050	41,139	(1,911)
General government	1,540,096	1,574,296	1,506,406	(67,890)
Public safety	1,745,790	1,770,790	1,799,707	28,917
Public works	1,032,291	1,097,291	1,141,219	43,928
Recreation and cultural	354,855	383,855	403,553	19,698
Appropriations	162,276	162,276	142,276	(20,000)
<b>TOTAL EXPENDITURES</b>	<b>4,878,358</b>	<b>5,031,558</b>	<b>5,034,300</b>	<b>2,742</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>121,385</b>	<b>8,185</b>	<b>68,194</b>	<b>60,009</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	70,000	70,000	83,000	13,000
Transfers out	(245,388)	(260,388)	(288,388)	(28,000)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(175,388)</b>	<b>(190,388)</b>	<b>(205,388)</b>	<b>(15,000)</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(54,003)</b>	<b>(182,203)</b>	<b>(137,194)</b>	<b>45,009</b>
FUND BALANCE, BEGINNING OF YEAR	861,622	861,622	861,622	-
<b>FUND BALANCE, END OF YEAR</b>	<b>\$ 807,619</b>	<b>\$ 679,419</b>	<b>\$ 724,428</b>	<b>\$ 45,009</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF MANISTEE**

**STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
OIL & GAS FUND**

**FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
<b>REVENUES</b>				
Interest revenue	\$ 292,500	\$ 292,500	\$ 332,277	\$ 39,777
Miscellaneous	<u>70,000</u>	<u>70,000</u>	<u>111,461</u>	<u>41,461</u>
<b>TOTAL REVENUES</b>	<b>362,500</b>	<b>362,500</b>	<b>443,738</b>	<b>81,238</b>
<b>EXPENDITURES</b>				
General government	<u>500</u>	<u>500</u>	<u>207</u>	<u>(293)</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>362,000</b>	<b>362,000</b>	<b>443,531</b>	<b>81,531</b>
<b>OTHER FINANCING USES</b>				
Transfers out	<u>(292,500)</u>	<u>(324,500)</u>	<u>(332,069)</u>	<u>(7,569)</u>
<b>NET CHANGE IN FUND BALANCE</b>	<b>69,500</b>	<b>37,500</b>	<b>111,462</b>	<b>73,962</b>
FUND BALANCE, BEGINNING OF YEAR	<u>6,612,718</u>	<u>6,612,718</u>	<u>6,612,718</u>	<u>-</u>
<b>FUND BALANCE, END OF YEAR</b>	<b><u>\$ 6,682,218</u></b>	<b><u>\$ 6,650,218</u></b>	<b><u>\$ 6,724,180</u></b>	<b><u>\$ 73,962</u></b>

The accompanying notes are an integral part of these financial statements.

**CITY OF MANISTEE**

**STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS**

**JUNE 30, 2008**

	<b>Water and Sewer Fund</b>	<b>Nonmajor Enterprise Funds</b>	<b>Total</b>	<b>Internal Service Fund</b>
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	\$ 369,658	\$ 150,282	\$ 519,940	\$ 298,148
Accounts receivable	475,918	17,952	493,870	-
Due from other funds	332,069	-	332,069	-
Prepaid items	10,504	150	10,654	-
Inventory	-	7,608	7,608	-
<b>Total current assets</b>	<b>1,188,149</b>	<b>175,992</b>	<b>1,364,141</b>	<b>298,148</b>
<b>Restricted assets</b>				
Cash and cash equivalents	559,588	-	559,588	-
<b>Long-term assets</b>				
Investments	1,000,787	-	1,000,787	-
Capital assets (net of accumulated depreciation)	17,711,541	405,687	18,117,228	1,491,691
Deferred charges	324,017	-	324,017	-
<b>Total long-term assets</b>	<b>19,036,345</b>	<b>405,687</b>	<b>19,442,032</b>	<b>1,491,691</b>
<b>TOTAL ASSETS</b>	<b>20,784,082</b>	<b>581,679</b>	<b>21,365,761</b>	<b>1,789,839</b>
<b>LIABILITIES AND NET ASSETS</b>				
<b>Current liabilities</b>				
Accounts payable	161,481	18,196	179,677	-
Accrued liabilities	12,933	1,638	14,571	-
Due to other funds	181,363	340	181,703	-
Accrued interest	55,678	-	55,678	16,863
Customer deposits	27,500	-	27,500	-
Current portion of long-term debt	773,578	-	773,578	213,622
<b>Total current liabilities</b>	<b>1,212,533</b>	<b>20,174</b>	<b>1,232,707</b>	<b>230,485</b>
<b>Long-term liabilities</b>				
Accrued compensated absences	58,237	-	58,237	-
Long-term debt less current portion	12,045,000	-	12,045,000	309,100
<b>Total long-term liabilities</b>	<b>12,103,237</b>	<b>-</b>	<b>12,103,237</b>	<b>309,100</b>
<b>TOTAL LIABILITIES</b>	<b>13,315,770</b>	<b>20,174</b>	<b>13,335,944</b>	<b>539,585</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	4,896,541	405,687	5,302,228	968,969
Restricted for debt service	559,588	-	559,588	-
Unrestricted	2,012,183	155,818	2,168,001	281,285
<b>TOTAL NET ASSETS</b>	<b>\$ 7,468,312</b>	<b>\$ 561,505</b>	<b>\$ 8,029,817</b>	<b>\$ 1,250,254</b>

Continued...

The accompanying notes are an integral part of these financial statements.

**CITY OF MANISTEE**

**STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS**

**JUNE 30, 2008**

---

**Reconciliation of Net Assets on the Statement of Net Assets for Enterprise Funds  
to Net Assets of Business-Type Activities on the Statement of Net Assets**

Net assets - total enterprise funds \$ 8,029,817

Amounts reported for business-type activities in the statement of net assets are different because:

An internal service fund is used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The assets and liabilities of the internal service fund are included in business-type activities in the statement of net assets.

Add: net assets of business-type activities accounted for in the internal service fund 17,769

**Net assets of business-type activities** \$ 8,047,586

Concluded

The accompanying notes are an integral part of these financial statements.

# CITY OF MANISTEE

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2008

	Water and Sewer Fund	Nonmajor Enterprise Funds	Total	Internal Service Fund
<b>OPERATING REVENUES</b>				
State revenue	\$ -	\$ 51,810	\$ 51,810	\$ -
Charges for services	2,661,814	228,043	2,889,857	299,250
<b>TOTAL OPERATING REVENUES</b>	<b>2,661,814</b>	<b>279,853</b>	<b>2,941,667</b>	<b>299,250</b>
<b>OPERATING EXPENSES</b>				
Water operations	552,291	-	552,291	-
Sewer WWTP	645,491	-	645,491	-
Sewer collection - streets	531,461	-	531,461	-
Boat ramp operations	-	40,723	40,723	-
Marina operations	-	198,305	198,305	-
Motor pool operations	-	-	-	30,352
Depreciation and amortization	893,185	31,834	925,019	288,210
<b>TOTAL OPERATING EXPENSES</b>	<b>2,622,428</b>	<b>270,862</b>	<b>2,893,290</b>	<b>318,562</b>
<b>OPERATING INCOME (LOSS)</b>	<b>39,386</b>	<b>8,991</b>	<b>48,377</b>	<b>(19,312)</b>
<b>NONOPERATING (EXPENSE) REVENUE</b>				
Interest revenue	131,639	6,399	138,038	10,429
Miscellaneous	139,675	-	139,675	45,726
Interest expense	(754,962)	-	(754,962)	(23,295)
<b>TOTAL NONOPERATING REVENUE (EXPENSE)</b>	<b>(483,648)</b>	<b>6,399</b>	<b>(477,249)</b>	<b>32,860</b>
Net (loss) income before transfers	(444,262)	15,390	(428,872)	13,548
<b>TRANSFERS</b>				
Transfers in	332,069	-	332,069	-
Transfers out	(175,000)	-	(175,000)	-
<b>TOTAL TRANSFERS</b>	<b>157,069</b>	<b>-</b>	<b>157,069</b>	<b>-</b>
<b>CHANGE IN NET ASSETS</b>	<b>(287,193)</b>	<b>15,390</b>	<b>(271,803)</b>	<b>13,548</b>
NET ASSETS, BEGINNING OF YEAR	7,755,505	546,115	8,301,620	1,236,706
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 7,468,312</b>	<b>\$ 561,505</b>	<b>\$ 8,029,817</b>	<b>\$ 1,250,254</b>

Continued...

The accompanying notes are an integral part of these financial statements.

**CITY OF MANISTEE**

**STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN NET ASSETS  
PROPRIETARY FUNDS**

**FOR THE YEAR ENDED JUNE 30, 2008**

---

**Reconciliation of the Statement of Revenues, Expenses and Changes in Net  
Assets of Enterprise Funds to the Statement of Activities**

**Change in net assets - total enterprise funds** **\$ (271,803)**

Amounts reported for business-type activities in the statement of activities are different

An internal service fund is used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The net revenue (expense) of the internal service fund is reported with business-type activities.

Subtract: net operating loss from business-type activities accounted for in the internal service fund.

(6,099)

**Change in net assets of business-type activities**

**\$ (277,902)**

Concluded

The accompanying notes are an integral part of these financial statements.

**CITY OF MANISTEE**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS**

**FOR THE YEAR ENDED JUNE 30, 2008**

	<b>Water and Sewer Fund</b>	<b>Nonmajor Enterprise Funds</b>	<b>Total</b>	<b>Internal Service Fund</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash received from customers	\$ 2,627,842	\$ 213,800	\$ 2,841,642	\$ -
Cash received from state grants	-	51,810	51,810	-
Cash received from interfund services provided	-	-	-	299,250
Cash payments to employees	(436,971)	(32,394)	(469,365)	-
Cash payments to suppliers for goods and services	(1,211,418)	(193,097)	(1,404,515)	(124,757)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>979,453</b>	<b>40,119</b>	<b>1,019,572</b>	<b>174,493</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Miscellaneous income	139,675	-	139,675	45,726
Transfers in from other funds	332,069	-	332,069	-
Transfers out to other funds	(175,000)	-	(175,000)	-
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<b>296,744</b>	<b>-</b>	<b>296,744</b>	<b>45,726</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Purchase of capital assets	(501,878)	(12,500)	(514,378)	-
Bond proceeds	215,034	-	215,034	-
Principal payments	(750,000)	-	(750,000)	(282,471)
Interest payments	(753,844)	-	(753,844)	(21,611)
<b>NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(1,790,688)</b>	<b>(12,500)</b>	<b>(1,803,188)</b>	<b>(304,082)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchase of investments	(188,506)	-	(188,506)	-
Sale of investments	-	644	644	227,063
Interest revenue	280,417	6,399	286,816	10,429
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>91,911</b>	<b>7,043</b>	<b>98,954</b>	<b>237,492</b>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(422,580)</b>	<b>34,662</b>	<b>(387,918)</b>	<b>153,629</b>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,351,826	115,620	1,467,446	144,519
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 929,246</b>	<b>\$ 150,282</b>	<b>\$ 1,079,528</b>	<b>\$ 298,148</b>
<b>STATEMENT OF NET ASSETS CLASSIFICATION OF CASH AND CASH EQUIVALENTS</b>				
Cash and cash equivalents	\$ 369,658	\$ 150,282	\$ 519,940	\$ 298,148
Restricted assets	559,588	-	559,588	-
	<b>\$ 929,246</b>	<b>\$ 150,282</b>	<b>\$ 1,079,528</b>	<b>\$ 298,148</b>

Continued...

# CITY OF MANISTEE

## STATEMENT OF CASH FLOWS PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2008

	Water and Sewer Fund	Nonmajor Enterprise Funds	Total	Internal Service Fund
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>				
Operating income (loss)	\$ 39,386	\$ 8,991	\$ 48,377	\$ (19,312)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities				
Depreciation and amortization	893,185	31,834	925,019	288,210
Changes in assets and liabilities				
Accounts receivable	(35,943)	(14,243)	(50,186)	-
Prepaid items	(634)	129	(505)	-
Inventory	-	2,912	2,912	-
Accounts payable	74,929	10,056	84,985	(94,405)
Due to other funds	-	340	340	-
Accrued liabilities	3,984	100	4,084	-
Accrued compensated absences	2,575	-	2,575	-
Customer deposits	1,971	-	1,971	-
<b>Net cash provided by operating activities</b>	<b>\$ 979,453</b>	<b>\$ 40,119</b>	<b>\$ 1,019,572</b>	<b>\$ 174,493</b>
<b>Non-cash capital and related financing activities</b>				
Acquisition of capital assets through notes payable	\$ -	\$ -	\$ -	\$ 154,703

Concluded

The accompanying notes are an integral part of these financial statements.



**CITY OF MANISTEE**  
**STATEMENT OF NET ASSETS**  
**FIDUCIARY FUNDS**

**JUNE 30, 2008**

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	<u>Agency</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$     328,978
Due from other governments	<u>          3,190</u>
<b>TOTAL ASSETS</b>	<b><u><u>\$    332,168</u></u></b>
<b>LIABILITIES</b>	
Accrued liabilities	\$           3,895
Due to other governments	<u>         328,273</u>
<b>TOTAL LIABILITIES</b>	<b><u><u>\$    332,168</u></u></b>

The accompanying notes are an integral part of these financial statements.

# **CITY OF MANISTEE, MICHIGAN**

## **Index**

### **Notes to the Financial Statements**

**June 30, 2008**

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	<b><u>PAGE</u></b>
<b>I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</b>	
A. Reporting entity	28
B. Government-wide and fund financial statements	28-29
C. Measurement focus, basis of accounting, and financial statement presentation	30-31
D. Assets, liabilities and equity	31-33
<b>II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY</b>	
A. Budgetary information	34
B. Excess of expenditures over appropriations	34
<b>III. DETAILED NOTES ON ALL FUNDS</b>	
A. Deposits and investments	34-36
B. Receivables	36
C. Payables	36
D. Capital assets	37-39
E. Interfund receivables, payables and transfers	40
F. Long-term debt	41-43
<b>IV. OTHER INFORMATION</b>	
A. Risk management	44
B. Property taxes	45
C. Pension plan	44-46
D. Other postemployment benefits	46

# CITY OF MANISTEE, MICHIGAN

## Notes to the Financial Statements

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### ***I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***

#### **A. Reporting entity**

The ***City of Manistee*** (the “City”) is directed by a City Council elected by the community at large. This legislative body appoints a City Manager to administer the affairs of the City. The City provides the following services as authorized by its charter: public safety (police and fire), highways and streets, parks and recreation, public improvements, planning and zoning and general administrative services. The City has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14 and Statement No. 39, regarding the definition of the reporting entity.

#### **Discretely Presented Component Units**

**Ramsdell Theatre Restoration Project** – In accordance with GASB Statement No. 39, the financial statements of the Ramsdell Theatre Restoration Project are included as a discretely presented component unit in the financial statements of the City. A complete financial statement of the Ramsdell Theatre Restoration project is included within these financial statements.

The Ramsdell Theatre Restoration Project financial statements are prepared in accordance with the accounting standards established by the Financial Accounting Standards Board and accordingly, a reporting model different from that of the City is used. The Ramsdell Theatre Restoration project financial statements included within reflect both models.

**Manistee City Housing Commission** – The Mayor with approval of the City Council appoints the members of the governing board of the commission. The Commission’s fiscal year end is December 31, 2007. A complete financial statement of the Housing Commission can be obtained from the Executive Director, City of Manistee Housing Commission, Century Terrace, Manistee, Michigan 49660.

**Downtown Development Authority (“DDA”)** – The Mayor with approval of the City Council appoints the members of the governing board of the DDA. The City also has the ability to significantly influence the operations of the DDA. A complete financial statement of the DDA can be obtained from the City Finance Director, City of Manistee, 70 Maple Street, PO Box 358, Manistee, Michigan 49660-0358.

#### **B. Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

# CITY OF MANISTEE, MICHIGAN

## Notes to the Financial Statements

---

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Oil & Gas Fund* accounts for the use of money derived from oil and gas royalties, which was endowed in a permanent fund. The income from the endowment is used to subsidize the water and sewer operations. The City is starting to phase out the subsidy so the water and sewer operations will become self-sufficient, and interest from this fund can be used for capital improvements.

The *Water and Sewer Fund* is the City's major proprietary fund. It accounts for the activities of the City's water distribution, sewage disposal and treatment system.

Additionally, the City reports the following fund types:

The *Internal Service Fund* accounts for fleet and equipment management to other departments or agencies of the City, or to other governments, on a cost reimbursement basis.

The *Agency Funds* account for assets held for other governments in an agency capacity, including tax collections.

# CITY OF MANISTEE, MICHIGAN

## Notes to the Financial Statements

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### C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting; however, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function, cost of building rent and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Sewer Enterprise Fund and of the government's Motor Pool Internal Service Fund are charges to customers for sales and services. The enterprise fund also recognizes as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating

# CITY OF MANISTEE, MICHIGAN

## Notes to the Financial Statements

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revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the city's policy to use restricted resources first, and then use unrestricted resources as they are needed.

### **D. Assets, liabilities and fund equity**

#### **1. *Deposits and investments***

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments are stated at fair market value.

#### **2. *Restricted Assets***

Cash and investments are restricted by bond debt requirements in the amount of \$559,588.

#### **3. *Receivables and payables***

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year and all other outstanding balances between funds are referred to as "due to/from other funds" (i.e., the current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

#### **4. *Inventory***

Inventory (if held) by the enterprise funds is valued at cost on the first-in, first-out basis. Inventory of expendable supplies in other funds have not been recorded and the amount of any such inventories is not considered material. The cost value of such inventories has been treated as an expenditure at the time of purchase.

#### **5. *Capital assets***

Capital assets, which include property, plant, equipment and infrastructure assets (i.e., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$3,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

# CITY OF MANISTEE, MICHIGAN

## Notes to the Financial Statements

---

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government and component units are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40-50
Public domain infrastructure	50
System infrastructure	50
Vehicles	3-20
Equipment	5-10

Capital assets of the Housing Commission with a cost to acquire or construct of \$600 or more are capitalized and depreciated over their useful lives. Depreciation is provided on a straight-line basis using the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings - dwellings	40
Buildings - nondwellings	20
Equipment - dwellings	7
Equipment - nondwellings	5-7
Building improvements	5-40

### **6. *Compensated absences***

Vacation and sick days for the City's salaried and some hourly employees are determined by the City's personnel policies, and the remaining City's hourly employees are determined by the union agreement between the City and the employees' union. The liability for these amounts will be included in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

# CITY OF MANISTEE, MICHIGAN

## Notes to the Financial Statements

---

The Housing Commission allows permanent employees to accumulate the following compensated absences:

- Vacation leave with pay granted annually shall be used within eighteen months after qualifying for the same. Vacation leave not used shall be forfeited.
- Each employee shall be granted one day for each month of employment for sick leave, not to exceed twelve days per year. Employees may accumulate up to 180 sick leave days.
- Each employee who has two or more years of service shall be granted three days per year for personal business not to be deducted from sick leave. Employees with less than two years of service shall be granted one day off per year for personal business not to be deducted from sick leave.

### **7. *Long-term obligations***

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

### **8. *Fund equity***

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

### **9. *Current Vulnerability due to Certain Concentrations***

The Housing Commission operates in a heavily regulated environment. The operations of the Housing Commission are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or administrative changes mandated by HUD. Such changes may occur with little notice and inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.



# **CITY OF MANISTEE, MICHIGAN**

## **Notes to the Financial Statements**

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### ***II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY***

#### **A. Budgetary information**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

Not later than May 15<sup>th</sup> of each year, the Council shall by resolution adopt a budget for the next fiscal year, shall appropriate the money needed for municipal purposes during the next fiscal year of the City and shall provide for a levy of the amount necessary to be raised by taxes upon real and personal property for municipal purposes subject to limitations.

The budget document presents information by fund, department, and line items. The legal level of budgetary control adopted by the City Council is the department level, which is the level at which expenditures may not legally exceed appropriations. A City Council resolution may approve transfers of appropriations between departments.

#### **B. Excess of expenditures over appropriations**

For the year ended June 30, 2008, the General Fund had activities in which expenditures exceeded appropriations. Community development, police, engineering, general public works and parks and recreation were over budget by \$2,216, \$35,660, \$5,677, \$38,521 and \$19,698, respectively. These over expenditures were funded by greater than anticipated revenues in those functions and the use of prior year fund balance.

### ***III. DETAILED NOTES ON ALL FUNDS***

#### **A. Deposits and investments**

Michigan Compiled Laws, Section 129.91 authorizes the local government unit to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations, which have an office in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the state of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The City Council has designated six banks for the deposit of City funds. The investment policy adopted by the Council in accordance with Public Act 20 of 1943 has authorized all allowable investments except repurchase agreements.

The City's deposit and investment policy are in accordance with statutory authority.

# CITY OF MANISTEE, MICHIGAN

## Notes to the Financial Statements

Cash and cash equivalents, investments and restricted assets are reported in the financial statements as follows:

	Governmental Activities	Business-type Activities	Total Primary Government	Fiduciary Funds	Component Units
Cash and cash equivalents	\$ 3,263,068	\$ 519,940	\$ 3,783,008	\$ 328,978	\$ 731,101
Investments	6,824,511	1,000,787	7,825,298	-	-
Restricted					
Cash and cash equivalents	-	559,588	559,588	-	65,626
<b>Total</b>	<b><u>\$10,087,579</u></b>	<b><u>\$ 2,080,315</u></b>	<b><u>\$12,167,894</u></b>	<b><u>\$ 328,978</u></b>	<b><u>\$ 796,727</u></b>

Cash and cash equivalents reported above include \$1,600 of cash on hand that is not considered deposits or investments for footnote purposes.

Footnote presentation	
Deposits	\$ 11,016,700
Investments	<u>2,275,299</u>
<b>Total</b>	<b><u>\$ 13,291,999</u></b>

The City chooses to disclose its investments by specifically identifying each. As of year-end, the City had the following investments.

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
Federal home loan bond	06/12/2013	300,375	AAA
Federal home loan bond	10/17/2013	300,225	AAA
Michigan Class Investment Pool	Various	1,368,855	AAA
NW Michigan Bank Sweep	Various	<u>305,843</u>	AAA
<b>Total</b>		<b><u>\$2,275,299</u></b>	

### Investment and deposit risk

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified above. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity dates for each investment are identified above for investments held at year-end.

*Credit Risk.* State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified above.

# CITY OF MANISTEE, MICHIGAN

## Notes to the Financial Statements

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The City's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year end.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. As of year end, \$9,871,165 of the City's bank balance of \$10,471,165 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Custodial Credit Risk – Investments.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the City does not have a policy for investment custodial credit risk. Of the above \$2,275,299 of investments, the City has a custodial credit risk exposure of \$2,275,299 because the related securities are uninsured, unregistered and held by the government's brokerage firm which is also the counterparty for these particular securities.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk as identified on the previous page. The City's investment policy also does not have specific limits in concentration of credit risk. Each of the investments held by the City exceeds 5 percent of the City's total investments.

### **B. Receivables**

Receivables in the City's governmental activities consist of 5% special assessments, 2% taxes receivable, 3% interest receivable, 7% due from customers, 38% due from other funds and 45% due from other governments. Receivables in the business-type activities consist of 100% due from customers.

Special assessments receivable are not expected to be collected within one year.

### **C. Payables**

Payables in the City's governmental and business-type activities consist of 100% due to vendors.

# CITY OF MANISTEE, MICHIGAN

## Notes to the Financial Statements

### D. Capital assets

#### Primary Government

Capital assets recorded in the governmental activities of the primary government includes all sidewalk and streetscape improvements since the fiscal year ended June 30, 1997, streetlight improvements since the fiscal year ended June 30, 2003 and street improvements since the implementation of GASB 34.

Capital assets activity in the governmental and business-type activities was as follows:

	<u>July 1, 2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2008</u>
<b>Governmental activities</b>				
Capital assets not being depreciated				
Land	\$ 1,494,429	\$ -	\$ -	\$ 1,494,429
Capital assets being depreciated				
Land improvements	5,255,769	44,576	-	5,300,345
Infrastructure	4,250,967	284,904	-	4,535,871
Buildings and structures	5,996,141	221,761	-	6,217,902
Vehicles	2,334,158	137,036	(75,839)	2,395,355
Furniture and equipment	<u>1,584,072</u>	<u>26,095</u>	<u>-</u>	<u>1,610,167</u>
Total capital assets being depreciated	<u>19,421,107</u>	<u>714,372</u>	<u>(75,839)</u>	<u>20,059,640</u>
Less accumulated depreciation				
Land improvements	(1,170,330)	(139,531)	-	(1,309,861)
Infrastructure	(588,721)	(106,974)	-	(695,695)
Buildings and structures	(1,774,408)	(134,880)	-	(1,909,288)
Vehicles	(1,032,447)	(288,210)	73,339	(1,247,318)
Furniture and equipment	<u>(992,290)</u>	<u>(83,719)</u>	<u>-</u>	<u>(1,076,009)</u>
Total accumulated depreciation	<u>(5,558,196)</u>	<u>(753,314)</u>	<u>73,339</u>	<u>(6,238,171)</u>
Total capital assets being depreciated, net	<u>13,862,911</u>	<u>(38,942)</u>	<u>(2,500)</u>	<u>13,821,469</u>
<b>Governmental activities capital assets, net</b>	<b><u>\$15,357,340</u></b>	<b><u>\$ (38,942)</u></b>	<b><u>\$ (2,500)</u></b>	<b><u>\$15,315,898</u></b>

# CITY OF MANISTEE, MICHIGAN

## Notes to the Financial Statements

	<u>July 1, 2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2008</u>
<b>Business-type activities</b>				
Capital assets not being depreciated				
Land	\$ 51,974	\$ -	\$ -	\$ 51,974
Capital assets being depreciated				
Land improvements	71,922	12,500	-	84,422
Buildings and structures	264,082	-	-	264,082
Infrastructure	28,024,325	501,878	-	28,526,203
Equipment	<u>477,893</u>	<u>-</u>	<u>-</u>	<u>477,893</u>
Total capital assets being depreciated	<u>28,838,222</u>	<u>514,378</u>	<u>-</u>	<u>29,352,600</u>
Less accumulated depreciation				
Land improvements	(8,896)	(5,189)	-	(14,085)
Buildings and structures	(124,223)	(11,063)	-	(135,286)
Infrastructure	(10,002,004)	(859,706)	-	(10,861,710)
Equipment	<u>(249,620)</u>	<u>(26,645)</u>	<u>-</u>	<u>(276,265)</u>
Total accumulated depreciation	<u>(10,384,743)</u>	<u>(902,603)</u>	<u>-</u>	<u>(11,287,346)</u>
Total capital assets being depreciated, net	<u>18,453,479</u>	<u>(388,225)</u>	<u>-</u>	<u>18,065,254</u>
<b>Business-type activities capital assets, net</b>	<b><u>\$ 18,505,453</u></b>	<b><u>\$ (388,225)</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 18,117,228</u></b>

Depreciation expense was charged to functions/programs of the primary government as follows:

<b>Governmental activities</b>	
General government	\$ 134,881
Public safety - police	23,255
Public safety - fire	13,953
Public works	153,484
Community development	46,510
Recreation and culture	93,021
Capital assets held by the City's internal service fund charged to the various functions based on their usage of the assets	<u>288,210</u>
<b>Total depreciation expense – governmental activities</b>	<b><u>\$ 753,314</u></b>

# CITY OF MANISTEE, MICHIGAN

## Notes to the Financial Statements

### **Business-type activities**

Water and sewer	\$ 870,769
Boat ramp	5,188
Marina	<u>26,646</u>

**Total depreciation expense – business-type activities**      **\$ 902,603**

### **Discretely presented component units**

Capital asset activity in the Ramsdell Theatre Restoration Project component unit was as follows:

	<u>July 1, 2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2008</u>
<b>Ramsdell Theatre Restoration Project</b>				
Capital assets being depreciated				
Furniture and equipment	\$ _____ -	\$ 100,499	\$ _____ -	\$ 100,499

Capital asset activity in the Housing Commission component unit was as follows:

	<u>January 1, 2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>December 31, 2007</u>
<b>Housing Commission</b>				
Capital assets not being depreciated				
Land	\$ 322,216	\$ -	\$ -	\$ 322,216
Construction in progress	<u>16,312</u>	<u>105,477</u>	<u>-</u>	<u>121,789</u>
Total capital assets not being depreciated	<u>338,528</u>	<u>105,477</u>	<u>-</u>	<u>444,005</u>
Capital assets being depreciated				
Land improvements	72,192	-	-	72,192
Buildings	7,260,986	406,015	-	7,667,001
Furniture and equipment	<u>474,930</u>	<u>77,789</u>	<u>-</u>	<u>552,719</u>
Total capital assets being depreciated	<u>7,818,108</u>	<u>483,804</u>	<u>-</u>	<u>8,291,912</u>
Less accumulated depreciation	<u>(5,005,453)</u>	<u>(377,531)</u>	<u>-</u>	<u>(5,382,984)</u>
Total capital assets being depreciated, net	<u>2,802,655</u>	<u>106,273</u>	<u>-</u>	<u>2,908,928</u>
<b>Housing Commission capital assets, net</b>	<b><u>\$ 3,141,183</u></b>	<b><u>\$ 211,750</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 3,352,933</u></b>

# CITY OF MANISTEE, MICHIGAN

## Notes to the Financial Statements

### E. Interfund receivables, payables and transfers

The composition of interfund balances is as follows as of June 30, 2008:

	<b>Due From Other Funds</b>			<b>Total</b>
	<b>General Fund</b>	<b>Nonmajor Governmental Funds</b>	<b>Water and Sewer Fund</b>	
<b><u>Due To Other Funds</u></b>				
General Fund	\$ -	\$ 514,834	\$ -	\$ 514,834
Nonmajor Governmental Funds	72,209	-	-	72,209
Nonmajor Enterprise Funds	-	340	-	340
Water and Sewer Fund	6,363	175,000	-	181,363
Oil & Gas Fund	-	-	332,069	332,069
<b>Total</b>	<b><u>\$ 78,572</u></b>	<b><u>\$ 690,174</u></b>	<b><u>\$ 332,039</u></b>	<b><u>\$ 1,100,815</u></b>

Interfund balances represent (1) short-term borrowings between funds for cash flow purposes, (2) to record a receivable for the year end transfer of interest revenue from the Oil & Gas Fund to the Water and Sewer Fund, and (3) to transfer expenses to funds where they should have been recorded.

The composition of interfund transfers is as follows:

	<b>Transfers in</b>			<b>Total</b>
	<b>General Fund</b>	<b>Nonmajor Governmental Funds</b>	<b>Water and Sewer Fund</b>	
<b><u>Transfers out</u></b>				
General Fund	\$ -	\$ 288,388	\$ -	\$ 288,388
Oil & Gas Fund	-	-	332,069	332,069
Nonmajor Governmental Funds	83,000	153,602	-	236,602
Water and Sewer Fund	-	175,000	-	175,000
<b>Total</b>	<b><u>\$ 83,000</u></b>	<b><u>\$ 616,990</u></b>	<b><u>\$ 332,069</u></b>	<b><u>\$ 1,032,059</u></b>

Transfers are used to (1) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, (2) transfer amounts to debt service funds to make bond payments and (3) to transfer interest revenue to the Water and Sewer Fund from the Oil & Gas Fund.

# CITY OF MANISTEE, MICHIGAN

## Notes to the Financial Statements

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### F. Long-term debt

**General obligation debt.** The City issues general obligation bonds to provide funds for the acquisition and construction of major capital projects. These are direct obligations of the City and the City has pledged the full faith and credit. The City obtains notes payable to provide funds for the acquisition of other capital assets, mostly vehicles and other related equipment.

Included in the governmental activities general obligation debt is a Michigan Economic Development Corporation (MEDC) Loan which was granted by the MEDC to assist in the funding of the construction of the City of Manistee Renaissance Park.

During fiscal 2007, the MEDC adopted a new policy regarding industrial parks which indicated that no interest would be charged on the repayment of loans given to local municipalities to finance the construction of industrial parks. Thus, no accrued interest has been recorded for this loan in the accompanying statement of net assets at June 30, 2008.

The business-type activities have both revenue and general obligation bonds. The revenue bonds' principal and interest are to be paid from the net revenues from the respective water supply system and sewer supply system. The general obligation bonds have the City's limited tax obligation.

During fiscal 2006, the City issued \$6,285,000 of Water and Sewer Revenue Refunding Bonds, Series 2005. The proceeds were used to refund and defease portions of the 1997A revenue bond issue, the 1998A revenue bond issue and the 1999A revenue bond issue maturing at varying amounts through 2028 in the amount of \$5,920,000.

The DDA component unit's bond payable is also a general obligation of the City. The component unit's payable was issued by the component unit on behalf of the primary government. No debt agreements were issued by the component unit during the year ended June 30, 2008.

During the year ended December 31, 2007, the Housing Commission obtained two notes payable from MSHDA. These notes are payable in monthly installments of \$679, non-interest bearing, unsecured and mature in December 2047. The notes have forgivable mortgages secured by property and buildings. If the properties mortgaged are continuously used in the Commission's Domestic Violence program, the mortgages are forgivable over the 40 year term; 25% for each 10 years that the houses stay in the program.



# CITY OF MANISTEE, MICHIGAN

## Notes to the Financial Statements

Following is a summary of bonds and notes payable of the City for the year ending June 30, 2008:

<u>Purpose</u>	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>Amount</u>
<b>Governmental activities</b>			
2003 General Obligation Bond	2024	2.50-4.40%	\$ 2,685,000
1999 DDA Limited Tax General Obligation Bond	2020	4.75-5.38%	1,295,000
1999 Michigan Transportation Fund Limited Tax General Obligation Bond	2015	4.70-5.20%	830,000
Note payable – Manager’s office copier	2011	4.25%	8,162
Note payable – DPW copier	2011	4.25%	4,830
Note payable – Police copier	2009	4.25%	1,326
Note payable – 2003 Wheel loader	2009	4.00%	7,142
Note payable – 2004 Sterling plow truck	2009	4.02%	8,074
Note payable – 2003 Snow blower	2009	4.02%	5,308
Note payable – Pierce pumper	2014	3.49%	132,458
Note payable – 2 Plow trucks	2009	3.75%	45,482
Note payable – Vactor	2010	3.95%	97,566
Note payable – Street sweeper	2011	4.875%	87,298
Note payable – Police cars	2009	4.39%	27,598
Note payable – Beach Cleaner	2012	4.71%	58,632
Note payable – Pickup Trucks & Escape	2010	4.15%	53,165
Michigan Economic Development Corporation Loan	2022	0.00%	<u>78,155</u>
			<b><u>\$ 5,425,196</u></b>
<b>Business-type activities</b>			
1997 Water and Sewer Revenue Bonds	2009	5.15-5.20%	\$ 30,000
1997 General Obligation Revenue Bonds	2017	2.25%	275,000
1998 Disposal System and Refunding Revenue Bonds	2009	4.55-4.60%	200,000
1998 General Obligation Bonds	2019	2.25%	1,605,000
1999 Water Supply and Sewage Disposal System Revenue Bonds	2010	4.65-4.85%	225,000
1999 General Obligation Bonds	2021	2.50%	1,610,000
2005 Water and Sewer Refunding Bonds	2028	3.25-4.25%	6,200,000
2006 SRF Water and Sewer Bonds	2027	1.625%	<u>2,670,000</u>
			<b><u>\$12,815,000</u></b>

# CITY OF MANISTEE, MICHIGAN

## Notes to the Financial Statements

Annual debt service requirements to maturity for governmental activities and business-type activities are as follows:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 485,426	\$ 228,659	\$ 770,000	\$ 375,989
2010	414,992	208,021	805,000	351,068
2011	404,180	191,292	815,000	327,448
2012	362,694	173,518	840,000	303,510
2013	363,818	157,330	860,000	282,833
2014-2018	1,657,091	550,177	4,790,000	927,183
2019-2023	1,446,995	210,296	2,970,000	269,154
2024-2028	<u>290,000</u>	<u>6,380</u>	<u>965,000</u>	<u>60,695</u>
<b>Total</b>	<b><u>\$ 5,425,196</u></b>	<b><u>\$1,725,673</u></b>	<b><u>\$12,815,000</u></b>	<b><u>\$2,897,880</u></b>

*Changes in long-term liabilities.* Long-term liability activity was as follows:

	<u>July 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2008</u>	<u>Due Within One Year</u>
<b><u>Primary Government</u></b>					
<b>Governmental activities</b>					
General obligation					
Bonds	\$ 5,055,000	\$ -	\$ (245,000)	\$ 4,810,000	\$ 260,000
Notes payable	681,333	154,703	(298,995)	537,041	219,810
MEDC Loan	83,771	-	(5,616)	78,155	5,616
Compensated absences	<u>258,998</u>	<u>24,887</u>	<u>-</u>	<u>283,885</u>	<u>-</u>
	<b><u>\$ 6,079,102</u></b>	<b><u>\$ 179,590</u></b>	<b><u>\$ (549,611)</u></b>	<b><u>\$ 5,709,081</u></b>	<b><u>\$ 485,426</u></b>

For the governmental activities, compensated absences are generally liquidated by the general fund.

### **Business-type activities**

General obligation					
bonds	\$ 3,750,000	\$ -	\$ (260,000)	\$ 3,490,000	\$ 265,000
Revenue bonds	7,025,000	-	(370,000)	6,655,000	385,000
SRF bonds	2,574,966	215,034	(120,000)	2,670,000	120,000
Compensated absences	<u>59,240</u>	<u>2,575</u>	<u>-</u>	<u>61,815</u>	<u>3,578</u>
	<b><u>\$ 13,624,240</u></b>	<b><u>\$ 2,575</u></b>	<b><u>\$ (750,000)</u></b>	<b><u>\$ 12,876,815</u></b>	<b><u>\$ 773,578</u></b>

### **Component Unit**

#### **Housing Commission**

Notes payable	\$ -	\$ 326,000	\$ -	\$ 326,000	\$ 8,150
Compensated absences	<u>49,024</u>	<u>-</u>	<u>(19,288)</u>	<u>29,736</u>	<u>-</u>
	<b><u>\$ 49,024</u></b>	<b><u>\$ 326,000</u></b>	<b><u>\$ (19,288)</u></b>	<b><u>\$ 355,736</u></b>	<b><u>\$ 8,150</u></b>

# CITY OF MANISTEE, MICHIGAN

## Notes to the Financial Statements

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### **IV. OTHER INFORMATION**

#### **A. Risk management**

The City is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. During the year ended June 30, 2008, the City carried insurance through various commercial carriers, to cover all risks of loss. The City has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

#### **B. Property taxes**

The City's property taxes are levied each July 1 on the taxable valuation of property located in the City as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through August 20; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Manistee County.

Assessed values as established annually by the City, and subject to acceptance by the County, are equalized by the state at an estimated 50% of current market value. Real and personal property in the City for the 2007 levy were assessed and equalized at \$199,258,541 (not including properties subject to Industrial Facilities Tax Exemption), representing 50% of estimated current market value.

The government's general operating tax rate for fiscal year 2008 was 16.95 mills, with an additional 1.5 mills levied for the City Refuse Fund.

Property taxes for the DDA are derived from a tax increment financing agreement between the DDA and other related taxing districts. Under this arrangement, the DDA receives those property taxes levied on the increment of current taxable valuations (determined as of the preceding December 31, the lien date) over base year assessed valuations on certain property located in the City, which are within the DDA district. Property taxes are recognized in the fiscal year in which they are levied.

#### **C. Pension Plan**

##### **Defined Benefit Pension Plan**

The City's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for

# CITY OF MANISTEE, MICHIGAN

## Notes to the Financial Statements

MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, MI 48917 or by calling (800) 767-6377.

### Funding Policy

The City is required to contribute at actuarially determined rates; the current rates are 2.91%, 10.79% and 2.93% of annual covered payroll for COAM, IAFF and general employees, respectively, and 0% for all other employees. General, Supervisory, USWA, POAM and COAM employees are required to contribute 4%; and IAFF employees are required to contribute 5%. The contribution requirements of the City are established and may be amended by the MERS Retirement Board. The contribution requirements of plan members are established and may be amended by the City depending on the MERS contribution program adopted by the City.

### Annual Pension Cost

For the year ended June 30, 2008, the City's annual pension cost of \$77,319 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the initial actuarial valuation using the entry age actuarial cost method. The actuarial assumption included (a) a rate of return on the investment of present and future assets of 8.0%, (b) additional projected salary increases of 0.0% to 8.40% per year, depending on age, attributable to seniority/merit and (c) projected salary increases of 4.5% per year, compounded annually, attributable to inflation. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The amortization period at initial valuation was 30 years.

<b><u>Fiscal Year Ending</u></b>	<b><u>Annual Pension Cost (APC)</u></b>	<b><u>Percentage of APC Contributed</u></b>	<b><u>Net Pension Obligation</u></b>
6/30/06	\$ 22,141	100%	\$ -
6/30/07	22,350	100%	-
6/30/08	77,319	100%	-

### Schedule of Funding Progress

<b><u>Actuarial Valuation Payroll Date</u></b>	<b><u>Actuarial Value of Assets (a)</u></b>	<b><u>Actuarial Accrued Liability (AAL) -Entry Age (b)</u></b>	<b><u>Unfunded AAL (UAAL) (b-a)</u></b>	<b><u>Funded Ratio (a/b)</u></b>	<b><u>Covered Payroll (c)</u></b>	<b><u>UAAL as a Percentage of Covered ((b-a)/c)</u></b>
12/31/05	\$ 13,463,901	\$ 12,288,934	\$ (1,174,967)	110%	\$ 2,627,302	0%
12/31/06	\$ 13,972,151	\$ 12,962,702	\$ (1,009,449)	108%	\$ 2,443,941	0%

# CITY OF MANISTEE, MICHIGAN

## Notes to the Financial Statements

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### **Housing Commission**

The Housing Commission participates in a multiple-employer public employee pension plan, under the Municipal Employees' Retirement System of Michigan (MERS). At December 31, 2007, the date of the last completed actuarial evaluation, the Housing Commission's termination liability for retirement benefits was \$415,562 (employer and employee combined). Valuation assets available to meet this obligation were \$276,658. The Housing Commission's estimated monthly contributions for the fiscal year beginning January 1, 2007 is \$854. There are seven active employees, one vested former member and one retiree and/or beneficiary. There is an unfunded actuarial accrued liability balance of \$153,643 as of December 31, 2007. Statistical information concerning the plan can be obtained from MERS, which is contained in their annual actuarial valuation.

### **D. Other post-employment benefits**

In addition to the pension benefits described in Note IV.C., the City provides a post retirement health insurance premium contribution of up to 50% of the premium or a maximum of \$250 per month from normal retirement until age 65 or eligibility for Medicare. The City paid approximately \$16,000 in health insurance premiums for 6 participants for the year ended June 30, 2008. The benefit is funded by assets in the City's General Fund and Water and Sewer Fund depending on what department the employee was employed in.

The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2010. Management is currently assessing the impact of this new accounting standard on the City's financial statements for future reporting periods.

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# CITY OF MANISTEE

## SCHEDULE OF REVENUES BUDGET TO ACTUAL GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2008

	Original Budget	Amended Budget	Actual	Over (Under) Budget
<b>Taxes</b>				
Real and personal property taxes	\$ 3,247,277	\$ 3,247,277	\$ 3,227,916	\$ (19,361)
Interest on delinquent taxes	62,000	62,000	75,363	13,363
<b>Federal sources</b>	(20,000)	20,000	13,418	(6,582)
<b>State sources</b>				
State revenue sharing	749,466	749,466	736,874	(12,592)
<b>Charges for services</b>				
Water and sewer	95,000	95,000	94,148	(852)
Major street	17,000	17,000	20,000	3,000
Local street	2,000	2,000	2,000	-
City refuse	5,000	5,000	13,950	8,950
Other administrative charges	287,239	287,239	290,954	3,715
Charges for sales	401,391	401,391	370,921	(30,470)
<b>Licenses and permits</b>	1,000	1,000	950	(50)
<b>Fines and forfeits</b>	56,500	56,500	58,107	1,607
<b>Interest revenue</b>	60,000	60,000	75,954	15,954
<b>Miscellaneous</b>				
Refunds	-	-	55,503	55,503
Refunds - workers comp	15,000	15,000	13,134	(1,866)
Other	20,870	20,870	53,302	32,432
<b>TOTAL REVENUES</b>	<b>\$ 4,999,743</b>	<b>\$ 5,039,743</b>	<b>\$ 5,102,494</b>	<b>\$ 62,751</b>

# CITY OF MANISTEE

## SCHEDULE OF EXPENDITURES BUDGET TO ACTUAL GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2008

	Original Budget	Amended Budget	Actual	Over (Under) Budget
<b>LEGISLATIVE</b>				
Personnel services	\$ 28,350	\$ 28,350	\$ 28,327	\$ (23)
Supplies	8,200	8,200	7,560	(640)
Travel and training	6,500	6,500	5,252	(1,248)
<b>TOTAL LEGISLATIVE</b>	<b>43,050</b>	<b>43,050</b>	<b>41,139</b>	<b>(1,911)</b>
<b>GENERAL GOVERNMENT</b>				
Manager				
Personnel services	172,488	172,488	171,737	(751)
Supplies	6,550	6,550	4,174	(2,376)
Repair and maintenance	1,200	1,200	772	(428)
Training and travel	15,190	15,190	16,863	1,673
Capital outlay	5,341	5,341	4,026	(1,315)
Total manager	200,769	200,769	197,572	(3,197)
Finance				
Personnel services	156,178	156,178	155,524	(654)
Supplies	5,865	5,865	5,377	(488)
Contractual services	36,700	36,700	37,336	636
Training and travel	3,860	3,860	3,453	(407)
Repair and maintenance	7,700	7,700	6,456	(1,244)
Capital outlay	4,638	4,638	4,642	4
Total finance	214,941	214,941	212,788	(2,153)

Continued...

# CITY OF MANISTEE

## SCHEDULE OF EXPENDITURES BUDGET TO ACTUAL GENERAL FUND

**FOR THE YEAR ENDED JUNE 30, 2008**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Over (Under) Budget</b>
Assessor				
Personnel services	\$ 155,538	\$ 159,738	\$ 162,426	\$ 2,688
Supplies	7,250	7,250	6,540	(710)
Contractual services	11,300	11,300	9,635	(1,665)
Training and travel	3,870	3,870	2,423	(1,447)
Capital outlay	3,405	3,405	3,997	592
Total assessor	181,363	185,563	185,021	(542)
Attorney				
Contractual services	87,500	87,500	69,613	(17,887)
Clerk				
Personnel services	137,903	137,903	131,201	(6,702)
Supplies	12,630	12,630	4,554	(8,076)
Contractual services	11,700	11,700	4,381	(7,319)
Training and travel	5,400	5,400	4,185	(1,215)
Printing and publishing	7,150	7,150	8,503	1,353
Capital outlay	3,000	3,000	9,990	6,990
Total clerk	177,783	177,783	162,814	(14,969)
Community development				
Personnel services	225,440	225,440	229,840	4,400
Supplies	6,400	6,400	4,370	(2,030)
Training and travel	2,200	2,200	2,237	37
Transportation	2,000	2,000	1,809	(191)
Total community development	236,040	236,040	238,256	2,216

Continued...



# CITY OF MANISTEE

## SCHEDULE OF EXPENDITURES BUDGET TO ACTUAL GENERAL FUND

**FOR THE YEAR ENDED JUNE 30, 2008**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Over (Under) Budget</b>
General service board and administration				
Harbor commission	\$ 250	\$ 250	\$ 78	\$ (172)
Board of review	3,800	3,800	2,420	(1,380)
Tree commission	300	300	161	(139)
Parks commission	200	200	281	81
Zoning board	1,000	1,000	1,919	919
Beautification committee	3,000	3,000	3,371	371
Planning commission	10,600	10,600	10,572	(28)
Total general service board and administration	19,150	19,150	18,802	(348)
Municipal building				
Supplies	5,000	5,000	4,860	(140)
Contractual services	40,500	40,500	36,871	(3,629)
Utilities	87,600	87,600	84,377	(3,223)
Repairs and maintenance	27,000	27,000	25,777	(1,223)
Total municipal building	160,100	160,100	151,885	(8,215)
Other general government				
Professional services	42,500	42,500	27,666	(14,834)
Electric street lights	89,000	104,000	101,966	(2,034)
Insurance	81,000	91,000	90,517	(483)
Postage	21,000	26,000	25,640	(360)
Rent	6,450	6,450	4,640	(1,810)
Miscellaneous	16,500	16,500	12,428	(4,072)
Capital outlay	6,000	6,000	6,798	798
Total other general government	262,450	292,450	269,655	(22,795)
<b>TOTAL GENERAL GOVERNMENT</b>	<b>1,540,096</b>	<b>1,574,296</b>	<b>1,506,406</b>	<b>(67,890)</b>

Continued...

# CITY OF MANISTEE

## SCHEDULE OF EXPENDITURES BUDGET TO ACTUAL GENERAL FUND

**FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
<b>PUBLIC SAFETY</b>				
Police				
Personnel services	\$ 927,923	\$ 937,923	\$ 969,714	\$ 31,791
Supplies	22,675	22,675	25,514	2,839
Contractual services	8,707	8,707	9,084	377
Transportation	4,200	4,200	4,200	-
Uniform allowance	7,100	7,100	7,867	767
Repairs and maintenance	32,000	42,000	40,628	(1,372)
Training and travel	41,350	46,350	46,611	261
Other services and charges	-	-	1,376	1,376
Capital outlay	4,272	4,272	3,893	(379)
Total police	<u>1,048,227</u>	<u>1,073,227</u>	<u>1,108,887</u>	<u>35,660</u>
Fire				
Personnel services	585,853	585,853	586,056	203
Supplies	18,020	18,020	22,293	4,273
Uniform and food allowance	6,850	6,850	4,848	(2,002)
Training and travel	38,800	38,800	36,096	(2,704)
Repairs and maintenance	19,650	19,650	17,925	(1,725)
Hydrant rent	21,600	21,600	21,600	-
Other services and charges	1,400	1,400	50	(1,350)
Capital outlay	5,390	5,390	1,952	(3,438)
Total fire	<u>697,563</u>	<u>697,563</u>	<u>690,820</u>	<u>(6,743)</u>
<b>TOTAL PUBLIC SAFETY</b>	<u><b>1,745,790</b></u>	<u><b>1,770,790</b></u>	<u><b>1,799,707</b></u>	<u><b>28,917</b></u>

Continued...

**CITY OF MANISTEE**

**SCHEDULE OF EXPENDITURES  
BUDGET TO ACTUAL  
GENERAL FUND**

**FOR THE YEAR ENDED JUNE 30, 2008**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Over (Under) Budget</b>
<b>PUBLIC WORKS</b>				
Engineering				
Contractual services	\$ 37,000	\$ 44,000	\$ 49,677	\$ 5,677
General public works				
Personnel services	712,316	720,316	732,762	12,446
Supplies	17,360	17,360	31,556	14,196
Contractual services	35,000	35,000	37,568	2,568
Repairs and maintenance	142,115	192,115	201,006	8,891
Training and travel	88,500	88,500	88,650	150
Total general public works	995,291	1,053,291	1,091,542	38,251
<b>TOTAL PUBLIC WORKS</b>	<b>1,032,291</b>	<b>1,097,291</b>	<b>1,141,219</b>	<b>43,928</b>
<b>RECREATION AND CULTURAL</b>				
Parks and recreation				
Personnel services	229,355	229,355	228,527	(828)
Supplies	-	13,000	12,747	(253)
Repair and maintenance	61,500	77,500	91,044	13,544
Training and travel	42,000	42,000	43,003	1,003
Utilities	22,000	22,000	22,679	679
Capital outlay	-	-	5,553	5,553
<b>TOTAL RECREATION AND CULTURAL</b>	<b>354,855</b>	<b>383,855</b>	<b>403,553</b>	<b>19,698</b>

Continued...

**CITY OF MANISTEE**

**SCHEDULE OF EXPENDITURES  
BUDGET TO ACTUAL  
GENERAL FUND**

**FOR THE YEAR ENDED JUNE 30, 2008**

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	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Over (Under) Budget</b>
<b>APPROPRIATIONS</b>				
Manistee recreation association	\$ 30,000	\$ 30,000	\$ 30,000	\$ -
Veterans/memorial day	1,000	1,000	1,000	-
A.A.Y.	44,000	44,000	24,000	(20,000)
Economic development	29,276	29,276	29,276	-
Ramsdell restoration	25,000	25,000	25,000	-
SSCENT	30,000	30,000	30,000	-
PEG studio	3,000	3,000	3,000	-
<b>TOTAL APPROPRIATIONS</b>	<b>162,276</b>	<b>162,276</b>	<b>142,276</b>	<b>(20,000)</b>
<b>TOTAL EXPENDITURES</b>	<b>\$ 4,878,358</b>	<b>\$ 5,031,558</b>	<b>\$ 5,034,300</b>	<b>\$ 2,742</b>

Concluded

# CITY OF MANISTEE

## COMBINING BALANCE SHEET NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2008

	Special Revenue Funds	Debt Service Fund	Capital Projects Funds	Total Nonmajor Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,434,998	\$ -	\$ 87,222	\$ 1,522,220
Investments	290,299	-	15,543	305,842
Receivables				
Accounts	32,472	-	-	32,472
Taxes	19,507	-	-	19,507
Prepaid expenses	43	-	-	43
Due from other funds	272,949	52,225	365,000	690,174
Due from other governments	118,227	-	-	118,227
<b>TOTAL ASSETS</b>	<b>\$ 2,168,495</b>	<b>\$ 52,225</b>	<b>\$ 467,765</b>	<b>\$ 2,688,485</b>
<b>LIABILITIES</b>				
Accounts payable	\$ 361,011	\$ 45,053	\$ 56,852	\$ 462,916
Deferred revenue	9,586	-	-	9,586
Funds held In escrow	5,270	-	-	5,270
Wages payable	939	-	-	939
Due to other funds	64,807	-	7,402	72,209
<b>TOTAL LIABILITIES</b>	<b>441,613</b>	<b>45,053</b>	<b>64,254</b>	<b>550,920</b>
<b>FUND BALANCES</b>				
Unreserved	1,726,882	-	-	1,726,882
Reserved for debt retirement	-	7,172	-	7,172
Reserved for capital projects	-	-	403,511	403,511
<b>TOTAL FUND BALANCES</b>	<b>1,726,882</b>	<b>7,172</b>	<b>403,511</b>	<b>2,137,565</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 2,168,495</b>	<b>\$ 52,225</b>	<b>\$ 467,765</b>	<b>\$ 2,688,485</b>

**CITY OF MANISTEE**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS**

**FOR THE YEAR ENDED JUNE 30, 2008**

	<b>Special Revenue Funds</b>	<b>Debt Service Fund</b>	<b>Capital Projects Funds</b>	<b>Total Nonmajor Governmental Funds</b>
<b>REVENUES</b>				
Taxes	\$ 285,497	\$ -	\$ -	\$ 285,497
Federal sources	344,613	-	-	344,613
State sources	534,905	-	-	534,905
Charge for services	434,981	-	-	434,981
Interest revenue	57,098	180	8,805	66,083
Reimbursement	-	143,998	-	143,998
Other revenue	293	-	-	293
Contributions\donations	14,096	-	-	14,096
Miscellaneous	45,989	-	55,273	101,262
<b>TOTAL REVENUES</b>	<b>1,717,472</b>	<b>144,178</b>	<b>64,078</b>	<b>1,925,728</b>
<b>EXPENDITURES</b>				
Current operations				
General government	187,506	850	61,447	249,803
Public safety	28,139	-	-	28,139
Highways and streets	910,296	-	-	910,296
Public works	522,409	-	-	522,409
Capital outlay	-	-	295,857	295,857
Debt service				
Principal	-	245,000	-	245,000
Interest expense	-	218,412	1,872	220,284
<b>TOTAL EXPENDITURES</b>	<b>1,648,350</b>	<b>464,262</b>	<b>359,176</b>	<b>2,471,788</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>69,122</b>	<b>(320,084)</b>	<b>(295,098)</b>	<b>(546,060)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	108,000	319,415	189,575	616,990
Transfers out	(236,602)	-	-	(236,602)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(128,602)</b>	<b>319,415</b>	<b>189,575</b>	<b>380,388</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(59,480)</b>	<b>(669)</b>	<b>(105,523)</b>	<b>(165,672)</b>
FUND BALANCES, BEGINNING OF YEAR	1,786,362	7,841	509,034	2,303,237
<b>FUND BALANCES, END OF YEAR</b>	<b>\$ 1,726,882</b>	<b>\$ 7,172</b>	<b>\$ 403,511</b>	<b>\$ 2,137,565</b>

**CITY OF MANISTEE**

**COMBINING BALANCE SHEET  
NONMAJOR SPECIAL REVENUE FUNDS**

**JUNE 30, 2008**

	<b>Building Inspector</b>	<b>Major Street</b>	<b>Local Street</b>	<b>Street Improvement</b>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 31,754	\$ 377,649	\$ 474,524	\$ 67,812
Investments	-	-	-	-
Receivables				
Accounts	-	-	-	341
Taxes	-	-	-	-
Prepaid expenses	-	-	-	-
Due from other funds	-	-	-	-
Due from other governments	-	94,869	21,940	-
<b>TOTAL ASSETS</b>	<b>\$ 31,754</b>	<b>\$ 472,518</b>	<b>\$ 496,464</b>	<b>\$ 68,153</b>
<b>LIABILITIES</b>				
Accounts payable	\$ 40	\$ 3,208	\$ 272,056	\$ -
Deferred revenue	-	-	-	-
Funds held In escrow	-	-	-	-
Wages payable	-	-	-	-
Due to other funds	21,800	-	-	1,955
<b>TOTAL LIABILITIES</b>	<b>21,840</b>	<b>3,208</b>	<b>272,056</b>	<b>1,955</b>
<b>FUND BALANCES</b>				
Unreserved	9,914	469,310	224,408	66,198
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 31,754</b>	<b>\$ 472,518</b>	<b>\$ 496,464</b>	<b>\$ 68,153</b>

<b>City Refuse</b>	<b>EPA Brownfield Grant Phase II</b>	<b>Brownfield Redevelopment Authority Fund</b>	<b>Criminal Justice</b>	<b>Local Revenue Sharing</b>
\$ 151,440	\$ 19,701	\$ 1,135	\$ 1,887	\$ 30,990
264,620	-	-	-	-
28,004	-	-	-	-
1,396	-	-	-	-
-	-	-	-	-
-	-	228,609	-	-
-	-	-	-	-
<b>\$ 445,460</b>	<b>\$ 19,701</b>	<b>\$ 229,744</b>	<b>\$ 1,887</b>	<b>\$ 30,990</b>
\$ 46,594	\$ -	\$ -	\$ 1,625	\$ 5,630
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
30,000	6,450	-	-	-
<b>76,594</b>	<b>6,450</b>	<b>-</b>	<b>1,625</b>	<b>5,630</b>
368,866	13,251	229,744	262	25,360
<b>\$ 445,460</b>	<b>\$ 19,701</b>	<b>\$ 229,744</b>	<b>\$ 1,887</b>	<b>\$ 30,990</b>

Continued...



# CITY OF MANISTEE

## COMBINING BALANCE SHEET NONMAJOR SPECIAL REVENUE FUNDS

JUNE 30, 2008

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	Maple Street Bridge	Riverwalk Maintenance	Special Assessment	Ramsdell Theatre
<b>ASSETS</b>				
Cash and cash equivalents	\$ -	\$ 46,668	\$ 10,060	\$ -
Investments	-	25,679	-	-
Receivables				
Accounts	-	-	-	864
Taxes	-	-	18,111	-
Prepaid expenses	-	-	-	43
Due from other funds	6,000	-	-	38,340
Due from other governments	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
<b>TOTAL ASSETS</b>	<b><u>\$ 6,000</u></b>	<b><u>\$ 72,347</u></b>	<b><u>\$ 28,171</u></b>	<b><u>\$ 39,247</u></b>
<b>LIABILITIES</b>				
Accounts payable	\$ 3,976	\$ -	\$ -	\$ 26,464
Deferred revenue	-	-	9,586	-
Funds held in escrow	-	-	-	5,270
Wages payable	-	-	-	939
Due to other funds	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
<b>TOTAL LIABILITIES</b>	<b>3,976</b>	<b>-</b>	<b>9,586</b>	<b>32,673</b>
<b>FUND BALANCES</b>				
Unreserved	<hr/> 2,024	<hr/> 72,347	<hr/> 18,585	<hr/> 6,574
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$ 6,000</u></b>	<b><u>\$ 72,347</u></b>	<b><u>\$ 28,171</u></b>	<b><u>\$ 39,247</u></b>

<b>Man Made Lake Fund</b>	<b>EPA Grant - Petroleum</b>	<b>EPA Grant - Hazardous</b>	<b>PEG Commission</b>	<b>Total</b>
\$ 202,088	\$ -	\$ -	\$ 19,290	\$ 1,434,998
-	-	-	-	290,299
-	-	-	3,263	32,472
-	-	-	-	19,507
-	-	-	-	43
-	-	-	-	272,949
-	569	849	-	118,227
<b>\$ 202,088</b>	<b>\$ 569</b>	<b>\$ 849</b>	<b>\$ 22,553</b>	<b>\$ 2,168,495</b>
\$ -	\$ 569	\$ 849	\$ -	\$ 361,011
-	-	-	-	9,586
-	-	-	-	5,270
-	-	-	-	939
-	-	-	4,602	64,807
-	<b>569</b>	<b>849</b>	<b>4,602</b>	<b>441,613</b>
202,088	-	-	17,951	1,726,882
<b>\$ 202,088</b>	<b>\$ 569</b>	<b>\$ 849</b>	<b>\$ 22,553</b>	<b>\$ 2,168,495</b>

Concluded

**CITY OF MANISTEE**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
NONMAJOR SPECIAL REVENUE FUNDS**

**FOR THE YEAR ENDED JUNE 30, 2008**

	<b>Building Inspector</b>	<b>Major Street</b>	<b>Local Street</b>	<b>Street Improvement</b>
<b>REVENUES</b>				
Taxes	\$ -	\$ -	\$ -	\$ -
Federal sources	-	-	-	-
State sources	-	373,735	134,247	23,890
Charge for services	24,253	163,198	-	1,625
Interest revenue	581	11,390	12,361	2,362
Other revenue	-	-	-	-
Contributions\donations	-	-	-	-
Miscellaneous revenue	-	-	-	-
<b>TOTAL REVENUES</b>	<b>24,834</b>	<b>548,323</b>	<b>146,608</b>	<b>27,877</b>
<b>EXPENDITURES</b>				
Current operations				
General government	-	-	-	-
Public safety	23,157	-	-	-
Highways and streets	-	512,149	384,965	2,089
Public works	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>23,157</b>	<b>512,149</b>	<b>384,965</b>	<b>2,089</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>1,677</b>	<b>36,174</b>	<b>(238,357)</b>	<b>25,788</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	-	-
Transfers out	-	(139,028)	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-</b>	<b>(139,028)</b>	<b>-</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>1,677</b>	<b>(102,854)</b>	<b>(238,357)</b>	<b>25,788</b>
FUND BALANCE, BEGINNING OF YEAR	8,237	572,164	462,765	40,410
<b>FUND BALANCE, END OF YEAR</b>	<b>\$ 9,914</b>	<b>\$ 469,310</b>	<b>\$ 224,408</b>	<b>\$ 66,198</b>

<b>City Refuse</b>	<b>EPA Brownfield Grant Phase II</b>	<b>Brownfield Redevelopment Authority Fund</b>	<b>Criminal Justice</b>	<b>Local Revenue Sharing</b>
\$ 285,497	\$ -	\$ -	\$ -	\$ -
-	104,586	238,609	-	-
-	-	-	3,033	-
124,484	-	1,500	-	41,830
20,227	-	-	47	-
-	-	-	-	-
-	-	-	-	-
-	-	-	50	-
<b>430,208</b>	<b>104,586</b>	<b>240,109</b>	<b>3,130</b>	<b>41,830</b>
-	-	-	-	20,066
-	-	-	4,982	-
-	-	-	-	-
418,709	91,335	12,365	-	-
<b>418,709</b>	<b>91,335</b>	<b>12,365</b>	<b>4,982</b>	<b>20,066</b>
<b>11,499</b>	<b>13,251</b>	<b>227,744</b>	<b>(1,852)</b>	<b>21,764</b>
-	-	2,000	-	-
(70,000)	-	-	-	(27,574)
<b>(70,000)</b>	<b>-</b>	<b>2,000</b>	<b>-</b>	<b>(27,574)</b>
<b>(58,501)</b>	<b>13,251</b>	<b>229,744</b>	<b>(1,852)</b>	<b>(5,810)</b>
427,367	-	-	2,114	31,170
<b>\$ 368,866</b>	<b>\$ 13,251</b>	<b>\$ 229,744</b>	<b>\$ 262</b>	<b>\$ 25,360</b>

Continued...

**CITY OF MANISTEE**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
NONMAJOR SPECIAL REVENUE FUNDS**

**FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Maple Street Bridge</u>	<u>Riverwalk Maintenance</u>	<u>Special Assessment</u>	<u>Ramsdell Theatre</u>
<b>REVENUES</b>				
Taxes	\$ -	\$ -	\$ -	\$ -
Federal sources	-	-	-	-
State sources	-	-	-	-
Charge for services	5,850	-	8,365	44,600
Interest revenue	40	2,935	-	158
Other revenue	-	-	-	293
Contributions\donations	-	-	-	-
Miscellaneous	-	-	-	2,500
<b>TOTAL REVENUES</b>	<u><b>5,890</b></u>	<u><b>2,935</b></u>	<u><b>8,365</b></u>	<u><b>47,551</b></u>
<b>EXPENDITURES</b>				
Current operations				
General government	-	11,395	-	125,433
Public safety	-	-	-	-
Highways and streets	11,093	-	-	-
Public works	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<u><b>11,093</b></u>	<u><b>11,395</b></u>	<u><b>-</b></u>	<u><b>125,433</b></u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u><b>(5,203)</b></u>	<u><b>(8,460)</b></u>	<u><b>8,365</b></u>	<u><b>(77,882)</b></u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	6,000	-	-	80,000
Transfers out	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u><b>6,000</b></u>	<u><b>-</b></u>	<u><b>-</b></u>	<u><b>80,000</b></u>
<b>NET CHANGE IN FUND BALANCE</b>	<b>797</b>	<b>(8,460)</b>	<b>8,365</b>	<b>2,118</b>
FUND BALANCE, BEGINNING OF YEAR	<u>1,227</u>	<u>80,807</u>	<u>10,220</u>	<u>4,456</u>
<b>FUND BALANCE, END OF YEAR</b>	<u><b>\$ 2,024</b></u>	<u><b>\$ 72,347</b></u>	<u><b>\$ 18,585</b></u>	<u><b>\$ 6,574</b></u>

<b>Man Made Lake Fund</b>	<b>EPA Grant - Petroleum</b>	<b>EPA Grant - Hazardous</b>	<b>PEG Commission</b>	<b>Total</b>
\$ -	\$ -	\$ -	\$ -	\$ 285,497
-	569	849	-	344,613
-	-	-	-	534,905
6,260	-	-	13,016	434,981
6,964	-	-	33	57,098
-	-	-	-	293
-	-	-	14,096	14,096
43,439	-	-	-	45,989
<b>56,663</b>	<b>569</b>	<b>849</b>	<b>27,145</b>	<b>1,717,472</b>
-	569	849	29,194	187,506
-	-	-	-	28,139
-	-	-	-	910,296
-	-	-	-	522,409
<b>-</b>	<b>569</b>	<b>849</b>	<b>29,194</b>	<b>1,648,350</b>
<b>56,663</b>	<b>-</b>	<b>-</b>	<b>(2,049)</b>	<b>69,122</b>
-	-	-	20,000	108,000
-	-	-	-	(236,602)
<b>-</b>	<b>-</b>	<b>-</b>	<b>20,000</b>	<b>(128,602)</b>
<b>56,663</b>	<b>-</b>	<b>-</b>	<b>17,951</b>	<b>(59,480)</b>
145,425	-	-	-	1,786,362
<b>\$ 202,088</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 17,951</b>	<b>\$ 1,726,882</b>

Concluded

**CITY OF MANISTEE**

**SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL  
BUILDING INSPECTOR  
NONMAJOR SPECIAL REVENUE FUND**

**FOR THE YEAR ENDED JUNE 30, 2008**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Over (Under) Budget</b>
<b>REVENUES</b>				
Charge for services	\$ 24,000	\$ 24,000	\$ 24,253	\$ 253
Interest revenue	50	50	581	531
<b>TOTAL REVENUES</b>	<b>24,050</b>	<b>24,050</b>	<b>24,834</b>	<b>784</b>
<b>EXPENDITURES</b>				
Public safety	23,850	23,850	23,157	(693)
<b>NET CHANGE IN FUND BALANCE</b>	<b>200</b>	<b>200</b>	<b>1,677</b>	<b>1,477</b>
FUND BALANCE, BEGINNING OF YEAR	8,237	8,237	8,237	-
<b>FUND BALANCE, END OF YEAR</b>	<b>\$ 8,437</b>	<b>\$ 8,437</b>	<b>\$ 9,914</b>	<b>\$ 1,477</b>

**CITY OF MANISTEE**

**STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL  
MAJOR STREET  
NONMAJOR SPECIAL REVENUE FUND**

**FOR THE YEAR ENDED JUNE 30, 2008**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Over (Under) Budget</b>
<b>REVENUES</b>				
State sources	\$ 380,000	\$ 380,000	\$ 373,735	\$ (6,265)
Charge for services	135,000	135,000	163,198	28,198
Interest revenue	5,000	5,000	11,390	6,390
<b>TOTAL REVENUES</b>	<b>520,000</b>	<b>520,000</b>	<b>548,323</b>	<b>28,323</b>
<b>EXPENDITURES</b>				
Highways and streets	766,376	766,376	512,149	(254,227)
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(246,376)</b>	<b>(246,376)</b>	<b>36,174</b>	<b>282,550</b>
<b>OTHER FINANCING USES</b>				
Transfers out	(139,028)	(139,028)	(139,028)	-
<b>NET CHANGE IN FUND BALANCE</b>	<b>(385,404)</b>	<b>(385,404)</b>	<b>(102,854)</b>	<b>282,550</b>
FUND BALANCE, BEGINNING OF YEAR	572,164	572,164	572,164	-
<b>FUND BALANCE, END OF YEAR</b>	<b>\$ 186,760</b>	<b>\$ 186,760</b>	<b>\$ 469,310</b>	<b>\$ 282,550</b>



**CITY OF MANISTEE**

**SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL  
LOCAL STREET  
NONMAJOR SPECIAL REVENUE FUND**

**FOR THE YEAR ENDED JUNE 30, 2008**

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	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Over (Under) Budget</b>
<b>REVENUES</b>				
State sources	\$ 130,000	\$ 130,000	\$ 134,247	\$ 4,247
Interest revenue	10,000	10,000	12,361	2,361
<b>TOTAL REVENUES</b>	<b>140,000</b>	<b>140,000</b>	<b>146,608</b>	<b>6,608</b>
<b>EXPENDITURES</b>				
Highways and streets	116,500	116,500	384,965	268,465
<b>NET CHANGE IN FUND BALANCE</b>	<b>23,500</b>	<b>23,500</b>	<b>(238,357)</b>	<b>(261,857)</b>
FUND BALANCE, BEGINNING OF YEAR	462,765	462,765	462,765	-
<b>FUND BALANCE, END OF YEAR</b>	<b>\$ 486,265</b>	<b>\$ 486,265</b>	<b>\$ 224,408</b>	<b>\$ (261,857)</b>

**CITY OF MANISTEE**

**SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL  
STREET IMPROVEMENT  
NONMAJOR SPECIAL REVENUE FUND**

**FOR THE YEAR ENDED JUNE 30, 2008**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Over (Under) Budget</b>
<b>REVENUES</b>				
State sources	\$ 24,000	\$ 24,000	\$ 23,890	\$ (110)
Charge for services	5,000	5,000	1,625	(3,375)
Interest revenue	3,000	3,000	2,362	(638)
<b>TOTAL REVENUES</b>	<b>32,000</b>	<b>32,000</b>	<b>27,877</b>	<b>(4,123)</b>
<b>EXPENDITURES</b>				
Highways and streets	43,000	43,000	2,089	(40,911)
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(11,000)</b>	<b>(11,000)</b>	<b>25,788</b>	<b>36,788</b>
<b>OTHER FINANCING SOURCES</b>				
Transfers in	7,200	7,200	-	(7,200)
<b>NET CHANGE IN FUND BALANCE</b>	<b>(3,800)</b>	<b>(3,800)</b>	<b>25,788</b>	<b>29,588</b>
FUND BALANCE, BEGINNING OF YEAR	40,410	40,410	40,410	-
<b>FUND BALANCE, END OF YEAR</b>	<b>\$ 36,610</b>	<b>\$ 36,610</b>	<b>\$ 66,198</b>	<b>\$ 29,588</b>

**CITY OF MANISTEE**

**SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL  
CITY REFUSE  
NONMAJOR SPECIAL REVENUE FUND**

**FOR THE YEAR ENDED JUNE 30, 2008**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Over (Under) Budget</b>
<b>REVENUES</b>				
Taxes	\$ 286,814	\$ 286,814	\$ 285,497	\$ (1,317)
Charge for services	126,000	126,000	124,484	(1,516)
Interest revenue	15,000	15,000	20,227	5,227
<b>TOTAL REVENUES</b>	<b>427,814</b>	<b>427,814</b>	<b>430,208</b>	<b>2,394</b>
<b>EXPENDITURES</b>				
Public works	395,200	395,200	418,709	23,509
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>32,614</b>	<b>32,614</b>	<b>11,499</b>	<b>(21,115)</b>
<b>OTHER FINANCING SOURCES</b>				
Transfers out	(70,000)	(70,000)	(70,000)	-
<b>NET CHANGE IN FUND BALANCE</b>	<b>(37,386)</b>	<b>(37,386)</b>	<b>(58,501)</b>	<b>(21,115)</b>
FUND BALANCE, BEGINNING OF YEAR	427,367	427,367	427,367	-
<b>FUND BALANCE, END OF YEAR</b>	<b>\$ 389,981</b>	<b>\$ 389,981</b>	<b>\$ 368,866</b>	<b>\$ (21,115)</b>

**CITY OF MANISTEE**

**SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL  
EPA BROWNFIELD GRANT PHASE II  
NONMAJOR SPECIAL REVENUE FUND**

**FOR THE YEAR ENDED JUNE 30, 2008**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Over (Under) Budget</b>
<b>REVENUES</b>				
Federal sources	\$ 70,000	\$ 70,000	\$ 104,586	\$ 34,586
<b>EXPENDITURES</b>				
Public works	70,000	85,000	91,335	6,335
<b>NET CHANGE IN FUND BALANCE</b>	-	(15,000)	13,251	28,251
FUND BALANCE, BEGINNING OF YEAR	-	-	-	-
<b>FUND BALANCE (DEFICIT), END OF YEAR</b>	<b>\$ -</b>	<b>\$ (15,000)</b>	<b>\$ 13,251</b>	<b>\$ 28,251</b>

**CITY OF MANISTEE**

**SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL  
BROWNFIELD REDEVELOPMENT AUTHORITY FUND  
NONMAJOR SPECIAL REVENUE FUND**

**FOR THE YEAR ENDED JUNE 30, 2008**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Over (Under) Budget</b>
<b>REVENUES</b>				
Federal sources	\$ -	\$ -	\$ 238,609	\$ 238,609
Charges for services	-	-	1,500	1,500
<b>TOTAL REVENUES</b>	<b>-</b>	<b>-</b>	<b>240,109</b>	<b>240,109</b>
<b>EXPENDITURES</b>				
Public works	-	-	12,365	12,365
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>-</b>	<b>-</b>	<b>227,744</b>	<b>227,744</b>
<b>OTHER FINANCING SOURCES</b>				
Transfers in	-	-	2,000	2,000
<b>NET CHANGE IN FUND BALANCE</b>	<b>-</b>	<b>-</b>	<b>229,744</b>	<b>229,744</b>
FUND BALANCE, BEGINNING OF YEAR	-	-	-	-
<b>FUND BALANCE, END OF YEAR</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 229,744</b>	<b>\$ 229,744</b>

**CITY OF MANISTEE**

**SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL**

**CRIMINAL JUSTICE**

**NONMAJOR SPECIAL REVENUE FUND**

**FOR THE YEAR ENDED JUNE 30, 2008**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Over (Under) Budget</b>
<b>REVENUES</b>				
State sources	\$ 2,900	\$ 2,900	\$ 3,033	\$ 133
Interest revenue	40	40	47	7
Miscellaneous revenue	-	-	50	50
<b>TOTAL REVENUES</b>	<b>2,940</b>	<b>2,940</b>	<b>3,130</b>	<b>190</b>
<b>EXPENDITURES</b>				
Public safety	3,125	4,125	4,982	857
<b>NET CHANGE IN FUND BALANCE</b>	<b>(185)</b>	<b>(1,185)</b>	<b>(1,852)</b>	<b>(667)</b>
FUND BALANCE, BEGINNING OF YEAR	2,114	2,114	2,114	-
<b>FUND BALANCE, END OF YEAR</b>	<b>\$ 1,929</b>	<b>\$ 929</b>	<b>\$ 262</b>	<b>\$ (667)</b>

**CITY OF MANISTEE**

**SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL  
LOCAL REVENUE SHARING  
NONMAJOR SPECIAL REVENUE FUND**

**FOR THE YEAR ENDED JUNE 30, 2008**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Over (Under) Budget</b>
<b>REVENUES</b>				
Charge for services	\$ -	\$ -	\$ 41,830	\$ 41,830
<b>EXPENDITURES</b>				
General government	73,153	73,153	20,066	(53,087)
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(73,153)</b>	<b>(73,153)</b>	<b>21,764</b>	<b>94,917</b>
<b>OTHER FINANCING SOURCES</b>				
Transfers out	-	-	(27,574)	(27,574)
<b>NET CHANGE IN FUND BALANCE</b>	<b>(73,153)</b>	<b>(73,153)</b>	<b>(5,810)</b>	<b>67,343</b>
FUND BALANCE, BEGINNING OF YEAR	31,170	31,170	31,170	-
<b>FUND BALANCE (DEFICIT), END OF YEAR</b>	<b>\$ (41,983)</b>	<b>\$ (41,983)</b>	<b>\$ 25,360</b>	<b>\$ 67,343</b>

**CITY OF MANISTEE**

**SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL  
MAPLE STREET BRIDGE  
NONMAJOR SPECIAL REVENUE FUND**

**FOR THE YEAR ENDED JUNE 30, 2008**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Over (Under) Budget</b>
<b>REVENUES</b>				
State sources	\$ 500,000	\$ 500,000	\$ -	\$ (500,000)
Charge for services	5,000	5,000	5,850	850
Interest revenue	250	250	40	(210)
<b>TOTAL REVENUES</b>	<b>505,250</b>	<b>505,250</b>	<b>5,890</b>	<b>(499,360)</b>
<b>EXPENDITURES</b>				
Highways and streets	505,000	505,000	11,093	(493,907)
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>250</b>	<b>250</b>	<b>(5,203)</b>	<b>(5,453)</b>
<b>OTHER FINANCING SOURCES</b>				
Transfers in	-	-	6,000	6,000
<b>NET CHANGE IN FUND BALANCE</b>	<b>250</b>	<b>250</b>	<b>797</b>	<b>547</b>
FUND BALANCE, BEGINNING OF YEAR	1,227	1,227	1,227	-
<b>FUND BALANCE, END OF YEAR</b>	<b>\$ 1,477</b>	<b>\$ 1,477</b>	<b>\$ 2,024</b>	<b>\$ 547</b>



**CITY OF MANISTEE**

**SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL  
RIVERWALK MAINTENANCE  
NONMAJOR SPECIAL REVENUE FUND**

**FOR THE YEAR ENDED JUNE 30, 2008**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Over (Under) Budget</b>
<b>REVENUES</b>				
Interest revenue	\$ 3,500	\$ 3,500	\$ 2,935	\$ (565)
<b>EXPENDITURES</b>				
General government	11,000	22,000	11,395	(10,605)
<b>NET CHANGE IN FUND BALANCE</b>	<b>(7,500)</b>	<b>(18,500)</b>	<b>(8,460)</b>	<b>10,040</b>
FUND BALANCE, BEGINNING OF YEAR	80,807	80,807	80,807	-
<b>FUND BALANCE, END OF YEAR</b>	<b>\$ 73,307</b>	<b>\$ 62,307</b>	<b>\$ 72,347</b>	<b>\$ 10,040</b>

**CITY OF MANISTEE**

**SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL  
SPECIAL ASSESSMENT  
NONMAJOR SPECIAL REVENUE FUND**

**FOR THE YEAR ENDED JUNE 30, 2008**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Over (Under) Budget</b>
<b>REVENUES</b>				
Charge for services	\$ 7,200	\$ 7,200	\$ 8,365	\$ 1,165
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	(7,200)	(7,200)	-	7,200
<b>NET CHANGE IN FUND BALANCE</b>	-	-	<b>8,365</b>	<b>8,365</b>
FUND BALANCE, BEGINNING OF YEAR	10,220	10,220	10,220	-
<b>FUND BALANCE, END OF YEAR</b>	<b>\$ 10,220</b>	<b>\$ 10,220</b>	<b>\$ 18,585</b>	<b>\$ 8,365</b>

**CITY OF MANISTEE**

**SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL  
RAMSDELL THEATRE  
NONMAJOR SPECIAL REVENUE FUND**

**FOR THE YEAR ENDED JUNE 30, 2008**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Over (Under) Budget</b>
<b>REVENUES</b>				
Charge for services	\$ 18,000	\$ 42,000	\$ 44,600	\$ 2,600
Interest revenue	250	250	158	(92)
Other Revenue	-	-	293	293
Miscellaneous	-	-	2,500	2,500
<b>TOTAL REVENUES</b>	<b>18,250</b>	<b>42,250</b>	<b>47,551</b>	<b>5,301</b>
<b>EXPENDITURES</b>				
General government	68,650	123,640	125,433	1,793
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(50,400)</b>	<b>(81,390)</b>	<b>(77,882)</b>	<b>3,508</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	65,000	65,000	80,000	15,000
<b>NET CHANGE IN FUND BALANCE</b>	<b>14,600</b>	<b>(16,390)</b>	<b>2,118</b>	<b>18,508</b>
FUND BALANCE, BEGINNING OF YEAR	4,456	4,456	4,456	-
<b>FUND BALANCE (DEFICIT), END OF YEAR</b>	<b>\$ 19,056</b>	<b>\$ (11,934)</b>	<b>\$ 6,574</b>	<b>\$ 18,508</b>

**CITY OF MANISTEE**

**SCHEDULE OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL**  
**MAN MADE LAKE**  
**NONMAJOR SPECIAL REVENUE FUND**

**FOR THE YEAR ENDED JUNE 30, 2008**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Over (Under) Budget</b>
<b>REVENUES</b>				
General government	\$ -	\$ -	\$ 43,439	\$ 43,439
Charge for services	-	-	6,260	6,260
Interest revenue	-	-	6,964	6,964
<b>TOTAL REVENUES</b>	<b>-</b>	<b>-</b>	<b>56,663</b>	<b>56,663</b>
 FUND BALANCE, BEGINNING OF YEAR	 145,425	 145,425	 145,425	 -
 <b>FUND BALANCE, END OF YEAR</b>	 <b>\$ 145,425</b>	 <b>\$ 145,425</b>	 <b>\$ 202,088</b>	 <b>\$ 56,663</b>

**CITY OF MANISTEE**

**SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL  
EPA GRANT - PETROLEUM  
NONMAJOR SPECIAL REVENUE FUND**

**FOR THE YEAR ENDED JUNE 30, 2008**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Over (Under) Budget</b>
<b>REVENUES</b>				
Federal sources	\$ -	\$ -	\$ 569	\$ 569
<b>EXPENDITURES</b>				
General government	-	5,000	569	(4,431)
<b>NET CHANGE IN FUND BALANCE</b>	-	(5,000)	-	<b>5,000</b>
FUND BALANCE, BEGINNING OF YEAR	-	-	-	-
<b>FUND BALANCE (DEFICIT), END OF YEAR</b>	<b>\$ -</b>	<b>\$ (5,000)</b>	<b>\$ -</b>	<b>\$ 5,000</b>

**CITY OF MANISTEE**

**SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL  
EPA GRANT - HAZARDOUS  
NONMAJOR SPECIAL REVENUE FUND**

**FOR THE YEAR ENDED JUNE 30, 2008**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Over (Under) Budget</b>
<b>REVENUES</b>				
Federal sources	\$ -	\$ -	\$ 849	\$ 849
<b>EXPENDITURES</b>				
General government	-	5,000	849	(4,151)
<b>NET CHANGE IN FUND BALANCE</b>	-	(5,000)	-	<b>5,000</b>
FUND BALANCE, BEGINNING OF YEAR	-	-	-	-
<b>FUND BALANCE (DEFICIT), END OF YEAR</b>	<b>\$ -</b>	<b>\$ (5,000)</b>	<b>\$ -</b>	<b>\$ 5,000</b>

**CITY OF MANISTEE**

**SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL  
PEG COMMISSION**

**NONMAJOR SPECIAL REVENUE FUND**

**FOR THE YEAR ENDED JUNE 30, 2008**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Over (Under) Budget</b>
<b>REVENUES</b>				
Charge for services	\$ -	\$ 15,000	\$ 13,016	\$ (1,984)
Interest revenue	-	-	33	33
Contributions\Donations	-	-	14,096	14,096
<b>TOTAL REVENUES</b>	<b>-</b>	<b>15,000</b>	<b>27,145</b>	<b>12,145</b>
<b>EXPENDITURES</b>				
General government	-	35,000	29,194	(5,806)
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>-</b>	<b>(20,000)</b>	<b>(2,049)</b>	<b>17,951</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	20,000	20,000	-
<b>NET CHANGE IN FUND BALANCE</b>	<b>-</b>	<b>-</b>	<b>17,951</b>	<b>17,951</b>
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>FUND BALANCE, END OF YEAR</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 17,951</b>	<b>\$ 17,951</b>

**CITY OF MANISTEE**

**COMBINING BALANCE SHEET  
NONMAJOR CAPITAL PROJECT FUNDS**

**JUNE 30, 2008**

	<b>Industrial Park</b>	<b>Renaissance Park</b>	<b>Capital Improvement</b>	<b>Capital Improvement Bonds</b>	<b>Total</b>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 17,046	\$ 35,377	\$ -	\$ 34,799	\$ 87,222
Investments	15,543	-	-	-	15,543
Due from other funds	-	-	365,000	-	365,000
<b>Total Assets</b>	<b>\$ 32,589</b>	<b>\$ 35,377</b>	<b>\$ 365,000</b>	<b>\$ 34,799</b>	<b>\$ 467,765</b>
<b>LIABILITIES</b>					
Accounts Payable	\$ -	\$ -	\$ 56,652	\$ 200	\$ 56,852
Due to Other Funds	-	-	7,402	-	7,402
<b>Total Liabilities</b>	<b>-</b>	<b>-</b>	<b>64,054</b>	<b>200</b>	<b>64,254</b>
<b>FUND BALANCES</b>					
Unreserved	32,589	35,377	300,946	34,599	403,511
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 32,589</b>	<b>\$ 35,377</b>	<b>\$ 365,000</b>	<b>\$ 34,799</b>	<b>\$ 467,765</b>



# CITY OF MANISTEE

## COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR CAPITAL PROJECT FUNDS

FOR THE YEAR ENDED JUNE 30, 2008

	Industrial Park	Renaissance Park	Capital Improvement	Capital Improvement Bonds	Total
<b>REVENUES</b>					
Interest revenue	\$ 2,140	\$ 427	\$ 4,717	\$ 1,521	\$ 8,805
Miscellaneous	11,964	32,925	10,384	-	55,273
<b>TOTAL REVENUES</b>	<b>14,104</b>	<b>33,352</b>	<b>15,101</b>	<b>1,521</b>	<b>64,078</b>
<b>EXPENDITURES</b>					
General government	16,101	5,991	32,392	6,963	61,447
Capital outlay	-	-	295,857	-	295,857
Interest Expense	-	1,872	-	-	1,872
<b>TOTAL EXPENDITURES</b>	<b>16,101</b>	<b>7,863</b>	<b>328,249</b>	<b>6,963</b>	<b>359,176</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(1,997)</b>	<b>25,489</b>	<b>(313,148)</b>	<b>(5,442)</b>	<b>(295,098)</b>
<b>OTHER FINANCING SOURCES</b>					
Transfers in	-	-	189,575	-	189,575
<b>NET CHANGE IN FUND BALANCES</b>	<b>(1,997)</b>	<b>25,489</b>	<b>(123,573)</b>	<b>(5,442)</b>	<b>(105,523)</b>
FUND BALANCES, BEGINNING OF YEAR	34,586	9,888	424,519	40,041	509,034
<b>FUND BALANCES, END OF YEAR</b>	<b>\$ 32,589</b>	<b>\$ 35,377</b>	<b>\$ 300,946</b>	<b>\$ 34,599</b>	<b>\$ 403,511</b>

# CITY OF MANISTEE

## COMBINING STATEMENT OF NET ASSETS NONMAJOR ENTERPRISE FUNDS

JUNE 30, 2008

	<b>Boat Ramp Fund</b>	<b>Marina Fund</b>	<b>Total</b>
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	\$ 63,290	\$ 86,992	\$ 150,282
Accounts receivables	150	17,802	17,952
Prepaid items	-	150	150
Inventory	-	7,608	7,608
<b>Total current assets</b>	<b>63,440</b>	<b>112,552</b>	<b>175,992</b>
Capital assets (net of accumulated depreciation)	70,339	335,348	405,687
<b>TOTAL ASSETS</b>	<b>133,779</b>	<b>447,900</b>	<b>581,679</b>
<b>LIABILITIES</b>			
Accounts payable	4,142	14,054	18,196
Due to other funds	-	340	340
Accrued liabilities	-	1,638	1,638
<b>TOTAL LIABILITIES</b>	<b>4,142</b>	<b>16,032</b>	<b>20,174</b>
<b>NET ASSETS</b>			
Invested in capital assets	70,339	335,348	405,687
Unrestricted	59,298	96,520	155,818
<b>TOTAL NET ASSETS</b>	<b>\$ 129,637</b>	<b>\$ 431,868</b>	<b>\$ 561,505</b>

# CITY OF MANISTEE

## COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS NONMAJOR ENTERPRISE FUNDS

**FOR THE YEAR ENDED JUNE 30, 2008**

	<b>Boat Ramp</b>	<b>Marina</b>	<b>Total</b>
<b>OPERATING REVENUES</b>			
State revenue	\$ 36,810	\$ 15,000	\$ 51,810
Charges for services	31,675	196,368	228,043
<b>TOTAL OPERATING REVENUES</b>	<b>68,485</b>	<b>211,368</b>	<b>279,853</b>
<b>OPERATING EXPENSES</b>			
Boat ramp operations	40,723	-	40,723
Marina operations	-	198,305	198,305
Depreciation	5,188	26,646	31,834
<b>TOTAL OPERATING EXPENSES</b>	<b>45,911</b>	<b>224,951</b>	<b>270,862</b>
<b>OPERATING INCOME (LOSS)</b>	<b>22,574</b>	<b>(13,583)</b>	<b>8,991</b>
<b>NONOPERATING REVENUE</b>			
Interest revenue	2,897	3,502	6,399
<b>CHANGE IN NET ASSETS</b>	<b>25,471</b>	<b>(10,081)</b>	<b>15,390</b>
NET ASSETS, BEGINNING OF YEAR	104,166	441,949	546,115
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 129,637</b>	<b>\$ 431,868</b>	<b>\$ 561,505</b>

# CITY OF MANISTEE

## COMBINING STATEMENT OF CASH FLOWS NONMAJOR ENTERPRISE FUNDS

FOR THE YEAR ENDED JUNE 30, 2008

	Boat Ramp	Marina	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers	\$ 31,525	\$ 182,275	\$ 213,800
Cash received from state grants	36,810	15,000	51,810
Cash payments to employees	(7,222)	(25,172)	(32,394)
Cash payments to suppliers for goods and services	(29,806)	(163,291)	(193,097)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>31,307</b>	<b>8,812</b>	<b>40,119</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Purchase of capital assets	(12,500)	-	(12,500)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Sale of investments	644	-	644
Interest revenue	2,897	3,502	6,399
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>3,541</b>	<b>3,502</b>	<b>7,043</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>22,348</b>	<b>12,314</b>	<b>34,662</b>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	40,942	74,678	115,620
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 63,290</b>	<b>\$ 86,992</b>	<b>\$ 150,282</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>			
Operating income (loss)	\$ 22,574	\$ (13,583)	\$ 8,991
Adjustments to reconcile operating income (loss) to net cash provided by operating activities			
Depreciation	5,188	26,646	31,834
Changes in assets and liabilities			
Accounts receivable	(150)	(14,093)	(14,243)
Prepaid items	64	65	129
Inventory	-	2,912	2,912
Accounts payable	4,119	5,937	10,056
Due to other funds	-	340	340
Accrued liabilities	(488)	588	100
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 31,307</b>	<b>\$ 8,812</b>	<b>\$ 40,119</b>

# CITY OF MANISTEE, MICHIGAN

## COMBINING BALANCE SHEET AGENCY FUNDS

JUNE 30, 2008

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	<b>Tax Collection</b>	<b>Payroll</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 260,414	\$ 68,564	\$ 328,978
Due from other governments	-	3,190	3,190
<b>TOTAL ASSETS</b>	<b>\$ 260,414</b>	<b>\$ 71,754</b>	<b>\$ 332,168</b>
<b>LIABILITIES</b>			
Accrued liabilities	\$ -	\$ 3,895	\$ 3,895
Due to other governments	260,414	67,859	328,273
<b>TOTAL LIABILITIES</b>	<b>\$ 260,414</b>	<b>\$ 71,754</b>	<b>\$ 332,168</b>

# CITY OF MANISTEE

## STATEMENT OF NET ASSETS COMPONENT UNIT - RAMSDELL THEATRE RESTORATION PROJECT

JUNE 30, 2008

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### ASSETS

Cash and cash equivalents	\$	3,643
Accounts receivable		<u>3,996</u>

<b>TOTAL CURRENT ASSETS</b>		<b>7,639</b>
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Capital assets, net		<u>100,499</u>
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<b>TOTAL ASSETS</b>		<b><u>108,138</u></b>
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### LIABILITIES

Accounts payable		<u>15,000</u>
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### NET ASSETS

Unrestricted	\$	<b><u><u>93,138</u></u></b>
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# **CITY OF MANISTEE**

## **STATEMENT OF ACTIVITIES COMPONENT UNIT - RAMSDELL THEATRE RESTORATION PROJECT**

**FOR THE YEAR ENDED JUNE 30, 2008**

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### **REVENUES AND SUPPORT**

State revenue	\$	20,500
Contributions		53,327
Interest earned		2,260
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### **TOTAL REVENUE AND SUPPORT**

**76,087**

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### **EXPENSES**

Program services		14,273
Miscellaneous Expense		126
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### **TOTAL EXPENSES**

**14,399**

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### **CHANGE IN NET ASSETS**

**61,688**

### **NET ASSETS, BEGINNING OF YEAR**

31,450

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### **NET ASSETS, END OF YEAR**

**\$ 93,138**

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

November 4, 2008

The Honorable Mayor and  
Members of the City Council  
City of Manistee  
Manistee, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Manistee, Michigan* (the "City") as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 4, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the Downtown Development Authority, a discretely presented component unit of the City of Manistee, were not audited in accordance with auditing standards applicable to financial audits contained in *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider Findings 2008-1 and 2008-2 as described in the accompanying schedule of financial statement findings to be significant deficiencies in internal control over financial reporting.



A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain matters that we reported to management of the City in a separate letter dated November 4, 2008.

The City's response to the findings identified in our audit is described in the accompanying schedule of financial statement findings. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of City Council, management, others within the City, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive, flowing style.

**City of Manistee**  
**Schedule of Financial Statement Findings**  
**June 30, 2008**

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**Finding 2008-1 – General Accounting Issues and Preparation of Financial Statements in Accordance with Accounting Principles Generally Accepted in the United States of America.**

**Criteria:** All Michigan governments are required to prepare financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP). This is a responsibility of the City's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)

**Condition:** In order to present the City's books in compliance with generally accepted accounting principles (GAAP), we were required to make a large number of adjustments to reasonably adjust the City's internal books. In addition, as is the case with many smaller and medium-sized entities, the City has historically relied on its independent external auditors to assist in the preparation of financial statements and footnotes as part of its external financial reporting process. Accordingly, the City's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the City's *internal* controls.

**Cause:** This condition was caused by the City's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the City to perform this task internally.

**Effect:** As a result of this condition, the City lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task. This condition adds both to the duration and complexity of the audit, as well as reduces the accuracy and usefulness of the City's interim financial data.

**View of Responsible Officials:** The City has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the City to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

## City of Manistee

### Schedule of Financial Statement Findings (Continued)

June 30, 2008

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**Finding 2008-2 – Inadequate segregation of duties within a significant account or process.**

**Criteria:** All significant accounts or processes for local governments are required to have adequate segregation of duties over the account or process.

**Condition:** As is the case with many smaller and medium-sized entities, the City's number of staff results in limited segregation of duties over billing and collection of utility receipts.

**Cause:** This condition was caused by the City's decision that it is more cost effective to have inadequate segregation of duties than to incur the expense of additional staff required to segregate these duties.

**Effect:** As a result of this condition, the City lacks adequate segregation of duties over the billing and collection of utility receipts.

**View of Responsible Officials:** The City has evaluated the cost vs. benefit of establishing adequate segregation of duties over the billing and collection of utility receipts, and determined that it is in the best interests of the City to continue to implement procedures where possible to improve the segregation of duties within the limitations of the current staffing levels including the possibility of automatic downloads of utility billings.



# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

November 4, 2008

Honorable Mayor and  
Members of the City Council  
City of Manistee

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Manistee* (the "City") for the year ended June 30, 2008, and have issued our report thereon dated November 4, 2008. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards**

As stated in our engagement letter dated July 2, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the City. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of City's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

**Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and our meeting about planning matters in June 2008.

## **Significant Audit Findings**

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.
- Management's estimate of the allowance for uncollectible accounts receivable is based on past experience and future expectations for collection of various account balances and has been determined to be zero.

We evaluated the key factors assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated November 3, 2008.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Entity's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the governing body and management of the *City of Manistee* and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, appearing to read "Lehmann Johnson", is positioned below the "Very truly yours," text.

**City of Manistee**  
**Comments and Recommendations**  
**For the Year Ended June 30, 2008**

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In planning and performing our audit of the financial statements of the City of Manistee (the “City”) as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the City’s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity’s financial statements that is more than inconsequential will not be prevented or detected by the entity’s internal control. The deficiencies we noted that we consider to be significant deficiencies are described in our report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity’s internal control.

**City of Manistee**  
**Comments and Recommendations**  
**For the Year Ended June 30, 2008**

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**Other Matters**

*Disaster Recovery Policy*

During our review of the IT Controls, we learned that the City does not have a disaster recovery policy covering the IT function. While the backup rotation system and offsite storage are considered adequate, it is recommended the City have a written disaster recovery policy that is constantly updated for system changes and is kept off-site in an easily assessable location. This policy should outline all key organization systems that would need to be restored in the case of site disaster. Once completed, this plan should be reviewed on a periodic basis to ensure that system changes have been documented.

*Workstation Security*

When users vacate the work areas for any length of time they should be locking their workstations. Windows provides an effective workstation security system that can be invoked with one set of keystrokes. Locking a personal workstation is a basic control that limits access to accounting records by unauthorized individuals. We recommend that the City require all PC users to lock their workstations when they are unattended.

*Passwords*

Limiting access to key financial data through strong password and access policies is a key IT control. We noted during our review of IT Controls that passwords are not being forced to be complex at either the “network” or “financial accounting” software level. Passwords should be forced by the system to be at least eight characters with a combination of letters, numbers and special characters. Currently, the City does not force this control at the network or financial application level. We recommend that the network and accounting system be set to force complex passwords.

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